

Flaherty & Crumrine PREFERRED INCOME OPPORTUNITY FUND INC
Form N-Q
October 26, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-06495

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated
(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720
Pasadena, CA 91101
(Address of principal executive offices) (Zip code)

R. Eric Chadwick
Flaherty & Crumrine Incorporated
301 E. Colorado Boulevard, Suite 720
Pasadena, CA 91101
(Name and address of agent for service)

Registrant's telephone number, including area code: 626-795-7300

Date of fiscal year end: November 30

Date of reporting period: August 31, 2018

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Schedule of Investments.

The Schedule(s) of Investments is attached herewith.

FLAHERTY & CRUMRINE PREFERRED INCOME OPPORTUNITY FUND

To the Shareholders of Flaherty & Crumrine Preferred Income Opportunity Fund (“PFO”):

Preferreds performed well in the third fiscal quarter¹, bringing total return for the year just back into positive territory. While these returns have not kept pace with returns in recent years, preferreds continue to outperform certain areas of the fixed income market. Total return² on net asset value (“NAV”) was 2.3% for the quarter, and 0.3% for the first nine months of fiscal 2018. Total return on market price over the same periods was 12.5% and 5.1%, respectively.

By most accounts, it has been a challenging year for corporate bond investments. As the current economic cycle has matured, interest rates rose modestly and credit spreads gradually widened. The yield curve flattened as the Federal Reserve methodically raised its benchmark rate while the long end of the Treasury yield curve moved up only modestly given a limited increase in broad-based inflation and subdued expectations for long-term economic growth. Over the first nine months of the Fund’s fiscal year, the Bloomberg Barclays U.S. Aggregate Index returned -0.5%, while the Bloomberg Barclays Long U.S. Credit Index returned -2.7%.

Preferreds outperformed these fixed-income benchmarks for a few key reasons. First, duration is moderate for many preferreds – and for the Fund’s portfolio specifically. We won’t repeat the merits of fixed-to-float preferreds here, but as previously discussed they offer attractive yields with intermediate duration. Owning both fixed-rate and fixed-to-float preferreds allows for management of portfolio duration despite the long-term nature of the Fund’s investments.

Second, an issuer’s preferreds generally yield more than its corporate bonds. The Fund’s strategy is to identify investment-grade issuers and invest down the capital structure (into preferreds) to earn extra yield for what is, in most cases, similar default risk. For issuers with solid credit quality, preferreds have consistently outperformed corporate bonds over a credit cycle. Over time, higher yields can make up for a lot of principal change and dampen effects of higher interest rates.

Outperformance of preferreds over other fixed income securities has been even better when considered after-tax. If shareholders missed our discussion on taxes in the semi-annual report dated May 31, 2018, we encourage a read. Most preferreds offer tax-advantaged income, which further enhances the extra yield earned for subordination (i.e. being lower in the capital structure than senior debt).

We believe the case for preferreds as an income investment remains largely intact, with a combination of higher relative yields, tax advantages, and benign credit conditions. Returns may be bumpy as markets navigate a late-cycle economy (albeit one that’s currently showing few signs of weakness) and an active Federal Reserve. For fixed-income investors, however, preferreds’ combination of credit quality, intermediate duration and yield should remain attractive.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2018

¹ June 1, 2018 – August 31, 2018

² Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OVERVIEW

August 31, 2018 (Unaudited)

Fund Statistics

| | | |
|---------------------------------|------------|---|
| Net Asset Value | \$ 11.35 | |
| Market Price | \$ 11.97 | |
| Premium | 5.46 | % |
| Yield on Market Price | 6.62 | % |
| Common Stock Shares Outstanding | 12,525,035 | |

Security Ratings % of Net Assets†**

| | | |
|--------------|------|---|
| A | 1.2 | % |
| BBB | 54.8 | % |
| BB | 32.9 | % |
| Below “BB” | 0.9 | % |
| Not Rated*** | 8.7 | % |

Portfolio Rating Guidelines % of Net Assets†

| | | |
|--|------|---|
| Security Rated Below Investment Grade By All***** | 33.2 | % |
| Issuer or Senior Debt Rated Below Investment Grade by All***** | 1.7 | % |

**Ratings are from Moody’s Investors Service, Inc. “Not Rated” securities are those with no ratings available from Moody’s.

***Excludes common stock and money market fund investments and net other assets and liabilities of 1.5%.

****Security rating below investment grade by all of Moody’s, Standard & Poor’s, and Fitch Ratings.

*****Security rating and issuer’s senior unsecured debt or issuer rating are below investment grade by all of Moody’s, S&P, and Fitch. The Fund’s investment policy currently limits such securities to 15% of Net Assets.

Industry Categories* % of Net Assets†

| | |
|----------------------------------|-------------------------|
| Top 10 Holdings by Issuer | % of Net Assets† |
| JPMorgan Chase & Co | 4.7 % |

| | |
|------------------------------|-------|
| MetLife Inc | 4.2 % |
| Wells Fargo & Company | 4.2 % |
| Morgan Stanley | 3.9 % |
| PNC Financial Services Group | 3.9 % |
| BNP Paribas | 3.2 % |
| Enbridge Energy Partners | 3.1 % |
| Fifth Third Bancorp | 3.0 % |
| Liberty Mutual Group | 2.8 % |
| HSBC PLC | 2.7 % |

| | % of Net Assets*****† | |
|--|----------------------------------|---|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals | 61 | % |
| Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD) | 44 | % |

*****This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.

†Net Assets includes assets attributable to the use of leverage.

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Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated

PORTFOLIO OF INVESTMENTS

August 31, 2018 (Unaudited)

Shares/\$ Par Value

Preferred Securities[§] —

94.3%

Banking — 55.4%

| | | | |
|--------------|---|--------------|----------------------|
| \$ 1,817,000 | Australia & New Zealand Banking Group Ltd., 6.75% to 06/15/26 then ISDA5 + 5.168%, 144A**** | \$ 1,889,680 | ** ⁽¹⁾⁽²⁾ |
| \$ 2,200,000 | Banco Bilbao Vizcaya Argentaria SA, 6.125% to 11/16/27 then SW5 + 3.87% | 1,946,054 | ** ⁽¹⁾⁽²⁾ |
| \$ 490,000 | Banco Mercantil del Norte SA, 7.625% to 01/06/28 then T10Y + 5.353%, 144A**** | 499,555 | ** ⁽²⁾ |
| | Bank of America Corporation: | | |
| \$ 2,100,000 | 5.875% to 03/15/28 then 3ML + 2.931%, Series FF | | |