

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

PREFERRED INCOME STRATEGIES FUND INC
 Form N-Q
 September 28, 2004

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 811-21286

Name of Fund: Preferred Income Strategies Fund, Inc.

Fund Address: P.O. Box 9011
 Princeton, NJ 08543-9011

Name and address of agent for service: Terry K. Glenn, President, Preferred
 Income Strategies Fund, Inc., 800 Scudders Mill Road, Plainsboro, NJ
 08536. Mailing address: P.O. Box 9011, Princeton, NJ 08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 10/31/04

Date of reporting period: 05/01/04 - 07/31/04

Item 1 - Schedule of Investments

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (in U.S. dollars)

Preferred Securities

Industry+	S&P Ratings	Moody's Ratings	Face Amount	Capital Trusts
Auto - 1.4%	BB	Baa3	\$ 13,000,000	Delphi Trust II, 6.197% due 11/1
Banks - 18.2%	A-	A3	12,035,000	ABN AMRO North America Holding P Repackaging Trust I, 6.523% (a) (
	A-	A2	11,000,000	Abbey National Capital Trust I,
	A-	A1	2,000,000	Bank One Capital III, 8.75% due
	A-	A1	1,000,000	Chase Capital I, 7.67% due 12/01
	A-	A1	16,455,000	Chase Capital II, 2.194% due 2/0
	A	Aa3	7,225,000	Danske Bank A/S, 5.914% (a) (b) (c
	BBB+	A2	7,210,000	Den Norske Bank ASA, 7.729% (a) (
	BBB+	A3	34,000,000	Dresdner Funding Trust I, 8.151%
	A	NR*	4,310,000	HBOS Capital Funding LP, 6.85% (
	A-	A2	2,000,000	HSBC Americas Capital Trust I, 7 12/15/2026(a)
	A-	A1	15,835,000	HSBC Capital Funding LP, 10.176%
	NR*	NR*	12,275,000	Hubco Capital Trust II, 7.65% du

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

	A+	Aa2	2,000,000	Lloyds TSB Bank PLC, 6.90% (c)
	A-	Aa3	18,470,000	NB Capital Trust III, 2.15% due
	A	A1	970,000	RBS Capital Trust I, 4.709% (b) (
	A-	A2	2,000,000	Republic New York Capital II, 7.12/04/2026
	A-	A2	10,000,000	Westpac Capital Trust III, 5.819

Diversified	BB	Baa3	8,500,000	Fuji JGB Investment LLC, 9.87%
Financial Services - 1.6%	BB	Baa3	5,000,000	SB Treasury Company LLC, 9.40%

Electric - 5.5%	BBB-	Baa2	10,000,000	Dominion Resources Capital Trust 12/01/2027
	BBB-	Baa2	15,000,000	Dominion Resources Capital Trust 1/15/2031

1

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (continued) (in U.S. dollars)

Preferred Securities (continued)

Industry+	S&P Ratings	Moody's Ratings	Face Amount	Capital Trusts
=====				
Electric (concluded)	BB+	Ba3	\$ 14,950,000	REI Capital Trust II, 8.257% due
	BB+	Baa2	9,500,000	SWEPCO Capital Trust I, 5.25% due

Finance - 3.5%	BBB+	A3	10,000,000	CIT Capital Trust I, 7.70% due 2
	A-	A1	11,300,000	Goldman Sachs Capital I, 6.345%
	BB+	Baa3	1,000,000	MBNA Capital A, 8.278% due 12/01
	A+	A1	10,000,000	Sun Life of Canada (U.S.) Capita 8.526% (a) (c)

Financial - 0.5%	NR*	Baa1	4,500,000	St. George Bank Funding Company, 8.485% (a) (c)

Financial Services - Other - 0.1%	A-	A1	998,000	JPM Capital Trust I, 7.54% due 1

Gas - 0.6%	BBB	Baa2	5,000,000	AGL Capital Trust, 8.17% due 6/0

Insurance - 7.2%	BBB	Baa3	28,165,000	AON Capital Trust, 8.205% due 1/
	AA	Aa1	2,000,000	American General Institutional C due 3/15/2046(a)
	A-	A2	6,066,000	ING Capital Funding Trust III, 8
	BB	Ba1	1,000,000	Markel Capital Trust I, 8.71% du

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

	A+	A2	6,325,000	Principal Life Insurance Company 3/01/2044 (Surplus Notes) (a)
	BBB	Baa1	14,000,000	QBE Insurance Group Limited, 5.6 7/01/2023 (a) (b)
	A-	Baa1	6,225,000	Transamerica Capital III, 7.625%

Insurance -	BBB+	A3	23,725,000	Axa, 8.60% due 12/15/2030 (Surpl
Multiline - 4.5%	BBB+	A3	1,000,000	GenAmerica Capital I, 8.525% due

2

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (continued) (in U.S. dollars)

Preferred Securities (continued)

Industry+	S&P Ratings	Moody's Ratings	Face Amount	Capital Trusts
=====				
Insurance - Multiline (concluded)	BBB-	Baa2	\$ 11,566,000	Safeco Capital Trust I, 8.072% d

Oil - 2.2%	BBB	Baa2	9,850,000	ConocoPhillips Capital Trust II, 1/15/2037 (a)
	A-	A2	10,000,000	Oil Insurance Limited, 5.15% due

PipeLines - 0.8%	BB+	Baa3	5,000,000	K N Capital Trust I, 8.56% due 4
	BB+	Baa3	1,750,000	K N Capital Trust III, 7.63% due

Reinsurance - 4.3%	BBB-	Baa1	22,100,000	ACE Capital Trust II, 9.70% due
	A-	Baa2	10,000,000	Zurich Capital Trust I, 8.376% d

Savings & Loan Associations - 3.6%	BB	Ba1	5,000,000	Astoria Capital Trust I: 9.75% due 11/01/2029
	BB	Ba2	1,000,000	9.75% due 11/01/2029 (a)
	BBB	Baa1	5,760,000	Dime Capital Trust I, 9.33% due
	BB	Baa2	12,765,000	GreenPoint Capital Trust I, 9.10
	BB	NR*	5,775,000	Webster Capital Trust I, 9.36% d

Special Situations - 4.1%	NR*	NR*	15,000,000	AgFirst Farm Credit Bank, 8.393% 12/15/2016 (b)
	BBB+	Baa3	15,000,000	Farmers Exchange Capital, 7.05%
	AA-	Aa3	8,000,000	Swedish Export Credit Corporatio

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

Total Investments in Capital Tru
(Cost - \$545,245,535) - 58.1%

3

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (continued) (in U.S. dollars)

Preferred Securities (continued)

Industry+	Shares Held	Preferred Stocks
Banks - 6.9%	150	BBVA Privanza International (Gib 7.764% (a)
	435,200	Banco Santander Central Hispano
	320,000	CoBank, ACB, 7% (a)
	1,000,000	Royal Bank of Scotland Group PLC
Electric - 2.6%	14,000	Alabama Power Company, 5.83%
	8,200	Delmarva Power & Light Company,
	80,000	Interstate Power and Light Compa
	17,372	South Carolina Electric & Gas Co
	200,000	TXU Corporation, 7.24% (b)
Electric Utilities - 0.4%	80,000	Duquesne Light Company, 6.50%
Finance - 4.1%	264,650	Federal National Mortgage Associ
	72,250	J.P. Morgan Chase & Co., 4.50% (
	100,000	Lehman Brothers Holdings, Inc.,
	600,000	Lehman Brothers Holdings, Inc.,
Gas - 1.8%	626,000	Southern Union Company, 7.55%
Insurance - 2.5%	880,000	ACE Limited, 7.80%
Miscellaneous Materials & Commodities - 2.6%	23,000	SG Preferred Capital II, 6.302%
Reinsurance - 3.1%	22,000	Zurich RegCaPS Funding Trust I,
	7,000	Zurich RegCaPS Funding Trust II,
Sovereign Government Obligations - 1.0%	9,000,000	Farm Credit Bank of Texas, 7.561

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

Specialty Markets - 0.2% 80,000 Corporate-Backed Trust Certifica

4

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (continued) (in U.S. dollars)

Preferred Securities (continued)

Industry+	Shares Held	Preferred Stocks
Wireless Communication - 4.0%	30,423	Centaur Funding Corporation, 9.0%
		Total Investments in Preferred S (Cost - \$270,980,115) - 29.2%

Real Estate Investment Tr

Real Estate Investment Trusts	196,000	AMB Property Corporation, 6.50%
	124,000	AMB Property Corporation, 6.75%
	251,400	Alexandria Real Estate Equities,
	290,000	BRE Properties, Inc., 6.75%
	400,000	CBL & Associates Properties, Inc
	600,000	CarrAmerica Realty Corporation ,
	200,000	Cousins Properties, Inc., 7.75%
	780,000	Developers Diversified Realty Co
	280,000	Developers Diversified Realty Co
	100,000	Duke Realty Corporation, 6.50%
	270,000	Duke Realty Corporation, 6.625%
	787,000	Equity Residential Properties Tr
	2,390	First Industrial Realty Trust, I
	4,000	Firststar Realty LLC, 8.875% (a)
	768,000	Health Care Property Investors,
	686,000	Kimco Realty Corporation, 6.65%
	1,600,000	New Plan Excel Realty Trust, 7.6
	72,000	PS Business Parks, Inc., 7%
	161,400	PS Business Parks, Inc., 7.95%
	320,000	Public Storage, Inc., 6.45%
	607,550	Regency Centers Corporation, 7.4
	11,857	Sovereign Real Estate Investment
	130,000	Wachovia Preferred Funding Corpo
	600,000	Weingarten Realty Investors, Inc
		Total Investments in Real Estate Trusts (Cost - \$255,147,085) - 2

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

5

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (continued) (in U.S. dollars)

Preferred Securities (continued)

Industry+	S&P Ratings	Moody's Ratings	Face Amount	Trust Preferred
Aerospace & Defense - 3.2%	NR*	NR*	\$ 27,450,000	RC Trust I, 7% due 5/15/2006
Auto - 1.1%	BB	Baa3	10,000,000	Delphi Trust I, 8.25% due 10/15/2006
Banks - 0.5%	A-	A2	4,875,000	J.P. Morgan Chase Capital XI, 5.75% due 6/15/2033
Electric - 1.6%	A	A2	11,750,000	Georgia Power Company, 5.90% due 10/15/2006
	BBB-	Baa2	3,000,000	HECO Capital Trust III, 6.50% due 10/15/2006
	BB+	Baa3	397,425	PSEG Funding Trust II, 8.75% due 10/15/2006
	BBB	Baa1	950,000	Virginia Power Capital Trust II, 7.75% due 7/30/2042
Finance - 3.5%	BBB+	Baa1	27,000,000	Countrywide Capital IV, 6.75% due 10/15/2006
	NR*	A1	1,000,000	Household Finance Corporation, 6.75% due 1/30/2033
	BBB+	A3	875,000	Lehman Brothers Holdings Capital Trust I, 6.375% due 3/15/2052
	A-	A1	817,000	Morgan Stanley Capital Trust III, 6.75% due 3/01/2033
	NR*	NR*	4,000,000	Principal Protected PreTSL IX, 6.75% due 4/03/2033
Gas - 0.6%	BB	Baa3	5,750,000	Southwest Gas Capital II, 7.70% due 10/15/2006
Insurance - 2.1%	A	A3	16,000,000	ABN AMRO North America Capital Trust I, 1.575% (b) (c)
	BBB	Baa1	5,000,000	Lincoln National Capital VI, 6.75% due 10/15/2006
PipeLines - 0.1%	BBB-	Baa1	500,000	Dominion-CNG Capital Trust I, 7.75% due 10/31/2041
Reinsurance - 0.1%	BBB	Baa1	1,000,000	Everest Re Capital Trust, 7.85% due 10/15/2006
Savings & Loan Associations - 1.4%	NR*	NR*	6,000,000	Dime Community Capital I, 7% due 10/15/2006
	NR*	NR*	8,000,000	Roslyn Real Estate Asset Corporation, 5.236% (b) (c)

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

6

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (continued) (in U.S. dollars)

Preferred Securities (concluded)

Industry+	S&P Ratings	Moody's Ratings	Face Amount	Trust Preferred
Special Situations - 0.5%	BBB+	A3	\$ 5,000,000	Natural Rural Utilities Cooperat Corporation, 6.75% due 2/15/2043
				Total Investments in Trust Prefe (Cost - \$140,219,922) - 14.7%
				Total Investments in Preferred S (Cost - \$1,211,592,657) - 128.8%

Corporate Bonds				
Auto - 1.0%	BBB-	Baa1	10,000,000	Ford Motor Company, 7.45% due 7/
Broadcasting/Media - 1.0%	BBB-	Baa3	10,000,000	Liberty Media Corporation, 5.70%
Cable Television Services - 1.1%	BBB	Baa3	10,000,000	Comcast Corporation, 7.05% due 3
Cellular Telephones - 3.7%	BBB	Baa2	28,000,000	AT&T Wireless Services, Inc., 8.
Diversified Financial Services - 3.1%	BBB	A3	29,000,000	General Motors Acceptance Corporon 11/01/2031
Electronics - 1.1%	BB+	Baa3	10,000,000	FirstEnergy Corp., 6.45% due 11/
Finance - 1.6%	AAA	Aaa	15,000,000	Sigma Finance Corporation, 1.12%
Foods - 0.5%	BBB	Baa3	4,800,000	Tyson Foods, Inc., 7% due 1/15/2
Multimedia - 2.7%	BBB+	Baa1	5,000,000	Time Warner Inc.: 7.625% due 4/15/2031
	BBB+	Baa1	18,000,000	7.70% due 5/01/2032

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

7

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (continued) (in U.S. dollars)

Industry+	S&P Ratings	Moody's Ratings	Face Amount	Corporate Bonds
Oil Field Services - 2.1%	BBB	Baa2	\$ 16,575,000	Duke Energy Field Services, LLC, 8/16/2030
Reinsurance - 1.2%	A-	A1	10,000,000	GE Global Insurance Holding Corp due 6/15/2030
Telephone - 7.0%	BBB+	Baa2	28,000,000	France Telecom, 9.50% due 3/01/2019
	BBB-	Baa3	2,000,000	Sprint Capital Corporation: 6.90% due 5/01/2019
	BBB-	Baa3	24,000,000	8.75% due 3/15/2032
				Total Investments in Corporate Bonds (Cost - \$240,698,026) - 26.1%

Short-Term Securities

			5,875,000	Federal Home Loan Banks, 1.22% due 8/13/2004 (e) (f)
			9,500,000	Federal Home Loan Mortgage Corporation, 8/24/2004 (e) (f)
			720,000	Federal National Mortgage Association, 8/04/2004 (e) (f)
				Total Investments in Short-Term Securities (Cost - \$16,086,033) - 1.7%

8

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (continued) (in U.S. dollars)

	Number of Contracts	Options Purchased
	97	Swaption, expiring September 2004, Broker Lehman Brothers Special F

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

	800	U.S. Treasury Notes, expiring Au Broker Greenwich Capital Markets
	800	U.S. Treasury Notes, expiring Au \$108, Broker Fimat USA
	1,010	U.S. Treasury Notes, expiring Au \$109, Broker HSBC Securities Inc
	1,675	U.S. Treasury Notes, expiring Se \$105, Broker Credit Suisse First
		Total Options Purchased (Premiums Paid - \$11,830,695) -
		Total Investments - (Cost - \$1,480,207,411) - 157.2%

Options Written		
Call Options Written	800	U.S. Treasury Notes, expiring Au \$108, Broker Greenwich Capital M
	1,225	U.S. Treasury Notes, expiring Se \$111, Broker Credit Suisse First
	800	U.S. Treasury Notes, expiring Au \$111, Broker Fimat USA.

Put Options Written	175	Swaption, expiring September 201 Broker Lehman Brothers Special F
------------------------	-----	--

		Total Options Written (Premiums Received - \$ 11,974,29
--	--	--

Total Investments, Net of Options Written (Cost - \$1,468,233,115**) - 156.3%

Other Assets Less Liabilities - 1.3%

Preferred Stock, at Redemption Value - (57.6)%

Net Assets Applicable to Common Stock - 100.0%

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (continued) (in U.S. dollars)

- (a) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (b) Floating rate note.
- (c) The security is a perpetual bond and has no definite maturity date.
- (d) This European style swaption, which can be exercised only to the expiration date, represents a standby commitment whereby the Fund is obligated to enter into a predetermined interest rate swap contract upon exercise of the swaption. One swaption contract represents a notional amount of \$1,000,000.
- (e) All or a portion of security held as collateral in connection with open financial futures contracts.

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

(f) Certain U.S. Government Obligations are traded on a discount basis; the interest rates shown reflects the discount rate paid at the time of purchase by the Fund.

* Not Rated.

** The cost and unrealized appreciation/depreciation of investments as of July 31, 2004, as computed for federal income tax purposes, were as follows:

Aggregate cost, net of options written	\$ 1,471,163,659
	=====
Gross unrealized appreciation	\$ 48,597,910
Gross unrealized depreciation	(26,341,880)

Net unrealized appreciation	\$ 22,256,030
	=====

+ For Fund compliance purposes, "Industry" means any one or more of the industry sub-classifications used by one or more widely recognized market Indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine such industry sub-classifications for reporting ease.

10

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2004 (concluded) (in U.S. dollars)

Swap contracts outstanding as of July 31, 2004 were as follows:	Notion Amount

Receive a variable rate equal to 1-month LIBOR and pay a fixed rate of 1.31% Broker, UBS Warburg Expires June 2005	\$ 150,000
Receive a variable rate equal to 1-month LIBOR and pay a fixed rate of 1.32% Broker, UBS Warburg Expires June 2005	\$ 25,000
Receive a variable rate equal to 1-month LIBOR and pay a fixed rate of 1.3275% Broker, J.P. Morgan Chase Bank Expires June 2005	\$ 125,000
Receive a variable rate equal to 1-month LIBOR and pay a fixed rate of 1.33% Broker, Morgan Stanley Capital Services, Inc. Expires June 2005	\$ 125,000
Receive a variable rate equal to 3-month LIBOR and pay a fixed rate of 5.3575% Broker, Morgan Stanley Capital Services, Inc. Expires October 2014	\$ 300,000

Total	

Financial futures contracts sold as of July 31, 2004 were as follows:

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

Number of Contracts	Issue	Expiration Date	Face Value	Unrealized Depreciat
5,282	10-year U.S. Treasury Notes	September 2004	\$576,696,225	\$(8,120,2

11

Item 2 - Controls and Procedures

- 2(a) - The registrant's certifying officers have reasonably designed such disclosure controls and procedures to ensure material information relating to the registrant is made known to us by others particularly during the period in which this report is being prepared. The registrant's certifying officers have determined that the registrant's disclosure controls and procedures are effective based on our evaluation of these controls and procedures as of a date within 90 days prior to the filing date of this report.
- 2(b) - There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the last fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3 - Exhibits

Certifications - Attached hereto

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Preferred Income Strategies Fund, Inc.

By: /s/ Terry K. Glenn

 Terry K. Glenn,
 President of
 Preferred Income Strategies Fund, Inc.

Date: September 17, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Terry K. Glenn

 Terry K. Glenn,
 President of

Edgar Filing: PREFERRED INCOME STRATEGIES FUND INC - Form N-Q

Preferred Income Strategies Fund, Inc.

Date: September 17, 2004

By: /s/ Donald C. Burke

Donald C. Burke,
Chief Financial Officer of
Preferred Income Strategies Fund, Inc.

Date: September 17, 2004