

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

PREFERRED INCOME STRATEGIES FUND INC

Form N-Q

September 28, 2005

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: Robert C. Doll, Jr., Chief Executive  
Officer, 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: 10/31/05

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

Item 1 - Schedule of Investments

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2005 (in U.S. dollars)

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Preferred Securities  
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Industry+	Face Amount	Capital Trusts
Commercial Banks - 22.1%	\$ 12,035,000	ABN AMRO North America Holding Preferred Cap Trust I, 6.523% (a) (b) (c)
	11,000,000	Abbey National Capital Trust I, 8.963% (b) (c)
	2,000,000	Bank One Capital III, 8.75% due 9/01/2030
	1,000,000	Chase Capital I Series A, 7.67% due 12/01/20
	16,455,000	Chase Capital II Series B, 4.193% due 2/01/2
	34,000,000	Dresdner Funding Trust I, 8.151% due 6/30/20
	3,630,000	First Empire Capital Trust II, 8.277% due 6/
	1,820,000	First Security Capital I, 8.41% due 12/15/20
	5,600,000	Firststar Capital Trust I Series B, 8.32% due
	2,000,000	HSBC America Capital Trust I, 7.808% due 12/
	15,835,000	HSBC Capital Funding LP/Jersey Channel Islan (b) (c)
	12,275,000	Hubco Capital Trust II Series B, 7.65% due 6
	998,000	JPM Capital Trust I, 7.54% due 1/15/2027 (a)

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	2,000,000	Lloyds TSB Bank Plc, 6.90% (c)
	8,500,000	Mizuho JGB Investment LLC, 9.87% (a) (b) (c)
	18,470,000	Nationsbank Capital Trust III, 4.149% due 1/15/2027
	10,000,000	RBS Capital Trust B, 6.80% (b) (c)
	2,000,000	Republic New York Corp., 7.53% due 12/04/2027
	5,000,000	SB Treasury Co. LLC, 9.40% (a) (b) (c)
	4,500,000	St. George Funding Co. LLC, 8.485% (a) (c)
	10,000,000	Westpac Capital Trust III, 5.819% (a) (b) (c)
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Consumer Finance - 0.5%	4,630,000	MBNA Capital A, 8.278% due 12/01/2026
-----		
Diversified Financial Services - 5.2%	15,000,000	Agfirst Farm Credit Bank, 8.393% due 12/15/2027
	10,000,000	CIT Capital Trust I, 7.70% due 2/15/2027
	9,000,000	Farm Credit Bank of Texas Series 1, 7.561% (a) (b) (c)
	10,000,000	Sun Life Canada US Capital Trust, 8.526% (a) (b) (c)
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Electric Utilities - 2.3%	14,950,000	HL&P Capital Trust II Series B, 8.257% due 2/15/2027
	5,000,000	SWEPCO Capital I, 5.25% due 10/01/2043 (b)
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Gas Utilities - 0.6%	5,000,000	AGL Capital Trust I Series B, 8.17% due 6/01/2027
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Insurance - 18.6%	24,175,000	AON Corp., 8.205% due 1/01/2027
	21,300,000	Ace Capital Trust II, 9.70% due 4/01/2030
	23,725,000	Axa, 8.60% due 12/15/2030
	15,000,000	Farmers Exchange Capital, 7.05% due 7/15/2027
	10,000,000	GE Global Insurance Holding Corp., 7.75% due 12/15/2027
	1,000,000	Genamerica Capital I, 8.525% due 6/30/2027 (a) (b) (c)
	6,066,000	ING Capital Funding Trust III, 8.439% (b) (c)
	1,000,000	Markel Capital Trust I Series B, 8.71% due 1/15/2027
	3,605,000	Oil Casualty Insurance Ltd., 8% due 9/15/2030
	6,325,000	Principal Life Insurance Co., 8% due 3/01/2027
	14,000,000	QBE Insurance Group Ltd., 5.647% due 7/01/2027
	6,225,000	Transamerica Capital III, 7.625% due 11/15/2027
	15,600,000	Zurich Capital Trust I, 8.376% due 6/01/2037
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Multi-Utilities - 3.2%	10,000,000	Dominion Capital Trust I, 7.83% due 12/01/2027
	15,000,000	Dominion Resources Capital Trust III, 8.40% due 12/01/2027
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Oil, Gas & Consumable Fuels - 1.9%	5,000,000	KN Capital Trust I Series B, 8.56% due 4/15/2027
	1,750,000	KN Capital Trust III, 7.63% due 4/15/2028
	9,850,000	Phillips 66 Capital Trust II, 8% due 1/15/2027
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(in U.S. dollars)

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Preferred Securities

Industry+	Face Amount	Capital Trusts
Thrifts & Mortgage Finance - 4.4%	\$ 1,000,000	Astoria Capital Trust I: 9.75% due 11/01/2029 (a)
	5,000,000	Series B, 9.75% due 11/01/2029
	5,760,000	Dime Capital Trust I Series A, 9.33% due 5/0
	12,765,000	Greenpoint Capital Trust I, 9.10% due 6/01/2
	3,005,000	ML Capital Trust I, 9.875% due 3/01/2027
	9,775,000	Webster Capital Trust I, 9.36% due 1/29/2027

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Total Capital Trusts (Cost - \$518,882,648) -  
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	Shares Held	Preferred Stocks
Capital Markets - 1.9%	96,000	Goldman Sachs Group, Inc. Series A, 3.91%
	600,000	Lehman Brothers Holdings, Inc., 6.50%
Commercial Banks - 10.8%	150	BBVA Privanza International Ltd., 7.764% (a)
	435,200	Banco Santander Central Hispano SA, 6.41%
	16,000,000	Barclays Bank Plc, 6.278%
	137,579	First Republic Bank, 6.25%
	4,650	First Tennessee Bank NA, 3.90% (a)
	166,800	Provident Financial Group, Inc., 7.75%
	800,000	Royal Bank of Scotland Group Plc Series L, 5
	23,000	SG Preferred Capital II, 6.302%
Diversified Financial Services - 4.1%	855,000	CIT Group, Inc. Series A, 6.35%
	320,000	Cobank ACB, 7%
Electric Utilities - 0.8%	14,000	Alabama Power Co., 5.83%
	80,000	Duquesne Light Co., 6.50%
	80,000	Interstate Power & Light Co. Series B, 8.375
Gas Utilities - 1.8%	626,000	Southern Union Co., 7.55%
Insurance - 9.1%	880,000	ACE Ltd. Series C, 7.80%
	1,260,000	Metlife, Inc. Series B, 6.50%
	140,000	Prudential Plc, 6.50%
	16,340	Zurich RegCaPS Funding Trust, 6.01% (a) (b)
	9,800	Zurich RegCaPS Funding Trust, 6.58% (a) (b)

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Multi-Utilities - 0.4%	140,000	Pacific Gas & Electric Co. Series A, 6%
Thrifts & Mortgage	1,210,000	Fannie Mae, 7%
Finance - 8.4%	264,650	Fannie Mae Series L, 5.125%
Wireless Telecommunication Services - 1.5%	10,423	Centaur Funding Corp., 9.08%
Total Preferred Stocks (Cost - \$347,914,522)		

Real Estate Investment Trusts

Real Estate - 21.7%	251,400	Alexandria Real Estate Equities, Inc. Series
	400,000	CBL & Associates Properties, Inc. Series C,
	600,000	CarrAmerica Realty Corp. Series E, 7.50%
	680,000	Developers Diversified Realty Corp., 8%
	190,000	Duke Realty Corp. Series K, 6.50%
	2,390	First Industrial Realty Trust, Inc., 6.236%
	4,000	Firststar Realty LLC, 8.875% (a)

Preferred Income Strategies Fund, Inc.

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(in U.S. dollars)

Preferred Securities

Industry+	Shares Held	Real Estate Investment Trusts
	768,000	Health Care Property Investors, Inc. Series
	172,800	Health Care REIT, Inc. Series F, 7.625%
	684,700	Kimco Realty Corp. Series F, 6.65%
	1,600,000	New Plan Excel Realty Trust Series E, 7.625%
	72,000	PS Business Parks, Inc.:
	64,000	Series K, 7.95%
		Series M, 7.20%
	320,000	Public Storage, Inc. Series X, 6.45%
	58,000	Regency Centers Corp., 7.25%
	607,550	Regency Centers Corp., 7.45%
	11,857	Sovereign Real Estate Investment Corp., 12%
	145,000	Vornado Realty Trust Series E, 7%
	130,000	Wachovia Preferred Funding Corp. Series A, 7%
	100,000	Weingarten Realty Investors Series D, 6.75%
		Total Real Estate Investment Trusts
		(Cost - \$195,615,535) - 21.7%

Face Amount Trust Preferred

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Aerospace & Defense - 3.0%	\$ 27,450,000	RC Trust I, 7% due 5/15/2006
Capital Markets - 0.1%	875,000	Lehman Brothers Holdings Capital Trust III S due 3/15/2052
Communications Equipment - 0.2%	2,000,000	Corporate-Backed Trust Certificates, 8.375%
Electric Utilities - 1.7%	6,750,000 3,000,000 5,000,000 950,000	Georgia Power Co. Series O, 1.475% due 4/15/ HECO Capital Trust III, 6.50% due 3/18/2034 National Rural Utilities Cooperative Finance due 2/15/2043 Virginia Power Capital Trust II, 1.844% due
Gas Utilities - 0.7%	500,000 5,750,000	Dominion CNG Capital Trust I, 1.95% due 10/3 Southwest Gas Capital II, 7.70% due 9/15/204
Insurance - 3.2%	16,000,000 295,000 1,000,000 5,000,000	ABN AMRO North America Capital Funding Trust 3.465% (a) (b) (c) Berkley W R Capital Trust, 6.75% due 7/26/20 Everest Re Capital Trust, 1.963% due 11/15/2 Lincoln National Capital VI Series F, 6.75%
Multi-Utilities - 0.0%	397,425	PSEG Funding Trust II, 8.75% due 12/31/2032
Thrifts & Mortgage Finance - 3.7%	27,000,000 6,000,000	Countrywide Financial Corp., 1.50% due 4/01/ Dime Community Capital I, 7% due 4/14/2034
		Total Trust Preferred (Cost - \$115,123,350)
		Total Preferred Securities (Cost - \$1,177,53
		Corporate Bonds
Automobiles - 3.9%	25,000,000 5,000,000	DaimlerChrysler NA Holding Corp., 8.50% due Ford Motor Co., 7.45% due 7/16/2031
Diversified Financial Services - 5.5%	8,000,000 29,000,000 15,000,000	Ford Motor Credit Co., 7% due 10/01/2013 General Motors Acceptance Corp., 8% due 11/0 Sigma Finance Corp., 6.297% due 8/15/2011 (g

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Schedule of Investments as of July 31, 2005

(in U.S. dollars)

Industry+	Face Amount	Corporate Bonds
Diversified Telecommunication Services - 7.9%	\$ 28,000,000 2,000,000 24,000,000	France Telecom SA, 8.75% due 3/01/2031 Sprint Capital Corp.: 6.90% due 5/01/2019 8.75% due 3/15/2032
Electric Utilities - 1.2%	10,000,000	FirstEnergy Corp. Series B, 6.45% due 11/15/2031
Food Products - 0.6%	4,800,000	Tyson Foods, Inc., 7% due 1/15/2028
Independent Power Producers & Energy Traders - 2.3%	16,575,000	Duke Energy Field Services LLC, 8.125% due 8/15/2031
Media - 4.3%	10,000,000 5,000,000 18,000,000	Comcast Corp., 7.05% due 3/15/2033 Time Warner, Inc.: 7.625% due 4/15/2031 7.70% due 5/01/2032
Thrifts & Mortgage Finance - 1.8%	8,000,000 8,000,000	Residential Capital Corp., 6.875% due 6/30/2031 Roslyn Real Estate Asset Corp. Series D, 7.125% due 12/15/2031
Wireless Telecommunication Services - 4.1%	28,000,000	AT&T Wireless Services, Inc., 8.75% due 3/01/2031
		Total Corporate Bonds (Cost - \$269,444,402)
Short-Term Securities		
	\$ 2,000,000	Freddie Mac, 3.345% due 8/23/2005 (e) (f)
		Total Short-Term Securities (Cost - \$1,995,900)
	Number of Contracts	Put Options Purchased
	4,000	U.S. Treasury Bonds Future, expiring August 2005
		Total Put Options Purchased (Premiums Paid - \$952,460) - 0.0%
		Total Investments (Cost - \$1,449,928,884*)
		Liabilities in Excess of Other Assets - (4.7%)

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Preferred Stock, at Redemption Value - (59.0

Net Assets Applicable to Common Stock - 100.

- + 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.
- \* The cost and unrealized appreciation (depreciation) of investments as of July 31, 2005, as computed for federal income tax purposes, were as follows:

Aggregate cost	\$1,456,234,846
	=====
Gross unrealized appreciation	\$ 84,746,275
Gross unrealized depreciation	(14,530,184)
	-----
Net unrealized appreciation	\$ 70,216,091
	=====

- (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.

Preferred Income Strategies Fund, Inc.

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- (d) Depository Receipts.
- (e) Certain U.S. Government Obligations are traded on a discount basis; the interest rates shown reflect the discount rates paid at the time of purchase by the Fund.
- (f) All or a portion of security held as collateral in connection with open financial futures contracts.
- (g) Restricted securities as to resale, representing 1.6% of net assets, were as follows:

Issue	Acquisition Date	Cost	Val
Sigma Finance Corp., 6.297% due 8/15/2011	2/13/2004	\$15,000,000	\$ 15,0

Affiliate	Net Activity	Interest Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	-	\$ 133,189
Merrill Lynch Liquidity Series, LLC Money Market Series	-	\$ 2,842

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Swaps outstanding as of July 31, 2005 were as follows:

	Notional Amount	Unrealized Appreciation (Depreciation)
Receive a fixed rate of 4.13% and pay a floating rate based on 3-month USD LIBOR		
Broker, Citibank N.A. Expires May 2008	\$ 34,000,000	\$ (290,4
Receive a fixed rate of 4.099% and pay a floating rate based on 3-month USD LIBOR		
Broker, Citibank N.A. Expires June 2008	\$ 34,000,000	(320,4
Sold credit default protection on General Motors Acceptance Corp. and receive 6.375%		
Broker, JPMorgan Chase Bank Expires June 2010	\$ 3,990,000	472,0
Bought credit default protection on General Motors Acceptance Corp. and pay 6.90%		
Broker, Lehman Brothers Special Finance Expires June 2010	\$ 3,990,000	(555,9
Pay a fixed rate of 4.902% and receive a floating rate based on 3-month USD LIBOR		
Broker, UBS Warburg Expires October 2010	\$ 160,000,000	(2,121,7

Preferred Income Strategies Fund, Inc.

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(in U.S. dollars)

	Notional Amount	Unrealized Appreciation (Depreciation)
Receive a fixed rate of 4.1275% and pay a floating rate based on 3-month USD LIBOR		
Broker, Deutsche Bank AG London Expires February 2012	\$ 200,000,000	\$ (4,497,0



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Receive a fixed rate of 4.14% and pay a floating rate based on 3-month USD LIBOR

Broker, Lehman Brothers Special Finance  
Expires February 2012

\$ 200,000,000

(4,353,9

Receive a fixed rate of 4.683% and pay a floating rate based on 3-month USD LIBOR

Broker, Morgan Stanley Capital Services, Inc.  
Expires January 2015

\$ 18,880,000

(7,3

Pay a fixed rate of 4.6275% and receive a floating rate based on 3-month USD LIBOR

Broker, Citibank N.A.  
Expires June 2015

\$ 40,000,000

278,3

Pay a fixed rate of 4.5165% and receive a floating rate based on 3-month USD LIBOR

Broker, Citibank N.A.  
Expires July 2015

\$ 40,000,000

633,2

Pay a fixed rate of 5.104% and receive a floating rate based on 3-month USD LIBOR

Broker, JPMorgan Chase Bank  
Expires September 2015

\$ 160,000,000

(4,509,4

Pay a fixed rate of 5.662% and receive a floating rate based on 3-month USD LIBOR

Broker, Morgan Stanley Capital Services, Inc.  
Expires September 2015

\$ 300,000,000

(23,201,1

Receive a fixed rate of 5.085% and pay a floating rate based on 3-month USD LIBOR

Broker, Morgan Stanley Capital Services, Inc.  
Expires March 2020

\$ 33,500,000

848,7

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2005

(in U.S. dollars)

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Notional  
Amount  
-----  
Unrealized  
Appreciation  
(Depreciation)

Pay a fixed rate of 5.26405% and receive a floating rate based on 3-month USD LIBOR

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Broker, Morgan Stanley Capital Services, Inc. Expires July 2025	\$ 82,080,000	\$ (3,656,0
Pay a fixed rate of 5.258% and receive a floating rate based on 3-month USD LIBOR		
Broker, Morgan Stanley Capital Services, Inc. Expires September 2025	\$ 102,500,000	(4,293,9
Receive a fixed rate of 5.256% and pay a floating rate based on 3-month USD LIBOR		
Broker, Morgan Stanley Capital Services, Inc. Expires January 2035	\$ 56,400,000	2,671,0
Receive a fixed rate of 5.225% and pay a floating rate based on 3-month USD LIBOR		
Broker, Morgan Stanley Capital Services, Inc. Expires March 2035	\$ 60,500,000	2,570,0
Receive a fixed rate of 4.962% and pay a floating rate based on 3-month USD LIBOR		
Broker, Citibank N.A. Expires May 2035	\$ 14,200,000	21,9
Receive a fixed rate of 4.855% and pay a floating rate based on 3-month USD LIBOR		
Broker, Citibank N.A. Expires June 2035	\$ 14,200,000	(212,7
Pay a fixed rate of 5.088% and receive a floating rate based on 3-month USD LIBOR		
Broker, Lehman Brothers Special Finance Expires September 2035	\$ 72,000,000	(1,385,2
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Total		\$ (41,909,9 =====

### 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.

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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/ Robert C. Doll, Jr.  
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Robert C. Doll, Jr.,  
Chief Executive Officer  
Preferred Income Strategies Fund, Inc.

Date: September 23, 2005

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/ Robert C. Doll, Jr.  
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Robert C. Doll, Jr.,  
Chief Executive Officer  
Preferred Income Strategies Fund, Inc.

Date: September 23, 2005

By: /s/ Donald C. Burke  
-----

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

Date: September 23, 2005