

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)

Preferred Securities

| 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) |
| ----- | | |
| 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) |
| ----- | | |
| 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) |
| ----- | | |
| Gas Utilities - 0.6% | 5,000,000 | AGL Capital Trust I Series B, 8.17% due 6/01/2027 |
| ----- | | |
| 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 |
| ----- | | |
| 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 |
| ----- | | |
| 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 |
| ----- | | |

Preferred Income Strategies Fund, Inc.

Schedule of Investments as of July 31, 2005

(in U.S. dollars)

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Preferred Securities

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

Total Capital Trusts (Cost - \$518,882,648) -
=====

| | Shares Held | Preferred Stocks |
|--|--|---|
| Capital Markets - 1.9% | 96,000 600,000 | Goldman Sachs Group, Inc. Series A, 3.91% Lehman Brothers Holdings, Inc., 6.50% |
| Commercial Banks - 10.8% | 150 435,200 16,000,000 137,579 4,650 166,800 800,000 23,000 | BBVA Privanza International Ltd., 7.764% (a) Banco Santander Central Hispano SA, 6.41% Barclays Bank Plc, 6.278% First Republic Bank, 6.25% First Tennessee Bank NA, 3.90% (a) Provident Financial Group, Inc., 7.75% Royal Bank of Scotland Group Plc Series L, 5 SG Preferred Capital II, 6.302% |
| Diversified Financial Services - 4.1% | 855,000 320,000 | CIT Group, Inc. Series A, 6.35% Cobank ACB, 7% |
| Electric Utilities - 0.8% | 14,000 80,000 80,000 | Alabama Power Co., 5.83% Duquesne Light Co., 6.50% Interstate Power & Light Co. Series B, 8.375 |
| Gas Utilities - 1.8% | 626,000 | Southern Union Co., 7.55% |
| Insurance - 9.1% | 880,000 1,260,000 140,000 16,340 9,800 | ACE Ltd. Series C, 7.80% Metlife, Inc. Series B, 6.50% Prudential Plc, 6.50% Zurich RegCaPS Funding Trust, 6.01% (a) (b) 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 Finance - 8.4% | 1,210,000 264,650 | Fannie Mae, 7% 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.

Schedule of Investments as of July 31, 2005

(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% |
| | | PS Business Parks, Inc.: |
| | 72,000 | Series K, 7.95% |
| | 64,000 | 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 |

Preferred Income Strategies Fund, Inc.

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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 1/15/2032 |
| 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.

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

- (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.

Schedule of Investments as of July 31, 2005

(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) |

| | 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 |
| ----- | | |
| 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.

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.

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