

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

PREFERRED INCOME STRATEGIES FUND INC

Form N-Q

September 29, 2006

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: 10/31/2006

Date of reporting period: 05/01/06 - 07/31/06

Item 1 - Schedule of Investments

Preferred Income Strategies Fund, Inc.  
Schedule of Investments as of July 31, 2006 (in U.S. dollars)

Preferred Securities

| Industry                 | Face<br>Amount | Capital Trusts  |
|--------------------------|----------------|---|
| Commercial Banks - 20.9% | \$ 12,035,000  | ABN AMRO North America Holding Preferred Capital Repack<br>6.523% (a) (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 12/01/2026                                |
|                          | 16,455,000     | Chase Capital II Series B, 5.989% due 2/01/2027 (b)                           |
|                          | 34,000,000     | Dresdner Funding Trust I, 8.151% due 6/30/2031 (a)                            |
|                          | 3,630,000      | First Empire Capital Trust II, 8.277% due 6/01/2027                           |
|                          | 1,820,000      | First Security Capital I, 8.41% due 12/15/2026                                |
|                          | 5,600,000      | Firststar Capital Trust I Series B, 8.32% due 12/15/2026                      |
|                          | 2,000,000      | HSBC America Capital Trust I, 7.808% due 12/15/2026 (a)                       |
|                          | 15,835,000     | HSBC Capital Funding LP/Jersey Channel Islands, 10.176%                       |
|                          | 7,300,000      | HSBC Finance Capital Trust IX, 5.911% due 11/30/2035 (b)                      |
|                          | 12,275,000     | Hubco Capital Trust II Series B, 7.65% due 6/15/2028                          |
|                          | 998,000        | JPM Capital Trust I, 7.54% due 1/15/2027                                      |
|                          | 2,000,000      | Lloyds TSB Bank Plc, 6.90% (c)  |
|                          | 13,500,000     | Mizuho JGB Investment LLC, 9.87% (a) (b) (c)                                  |

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

|                                       |            |   |
|---------------------------------------|------------|---|
|                                       | 18,470,000 | Nationsbank Capital Trust III, 6.057% due 1/15/2027 (b)   |
|                                       | 2,000,000  | Republic New York Corp., 7.53% due 12/04/2026             |
|                                       | 10,000,000 | SB Treasury Co. LLC, 9.40% (a) (b) (c)                    |
|                                       | 4,500,000  | ST George Funding Co. LLC, 8.485% (a) (c)                 |
|                                       | 4,000,000  | Wachovia Capital Trust III, 5.80% (b) (c)                 |
| -----                                 |            |   |
| Consumer Finance - 3.0%               | 21,670,000 | Capital One Capital III, 7.686% due 8/15/2036             |
|                                       | 4,630,000  | MBNA Capital A, 8.278% due 12/01/2026                     |
| -----                                 |            |   |
| Diversified Financial Services - 5.4% | 15,000,000 | Agfirst Farm Credit Bank, 8.393% due 12/12/2016 (b)       |
|                                       | 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% (b) (c)        |
|                                       | 10,000,000 | Sun Life Canada US Capital Trust, 8.526% (a) (c)          |
| -----                                 |            |   |
| Electric Utilities - 2.3%             | 14,950,000 | HL&P Capital Trust II Series B, 8.257% due 2/01/2037      |
|                                       | 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 6/01/2037         |
| -----                                 |            |   |
| Insurance - 18.7%                     | 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 7/15/2028 (a)         |
|                                       | 10,000,000 | GE Global Insurance Holding Corp., 7.75% due 6/15/2030    |
|                                       | 1,000,000  | Genamerica Capital I, 8.525% due 6/30/2027 (a)            |
|                                       | 6,066,000  | ING Capital Funding Trust III, 8.439% (b) (c)             |
|                                       | 1,000,000  | Markel Capital Trust I Series B, 8.71% due 1/01/2046      |
|                                       | 3,605,000  | Oil Casualty Insurance Ltd., 8% due 9/15/2034 (a)         |
|                                       | 6,325,000  | Principal Life Insurance Co., 8% due 3/01/2044 (a)        |
|                                       | 14,000,000 | QBE Insurance Group Ltd., 5.647% due 7/01/2023 (a) (b)    |
|                                       | 6,225,000  | Transamerica Capital III, 7.625% due 11/15/2037           |
|                                       | 15,600,000 | Zurich Capital Trust I, 8.376% due 6/01/2037 (a)          |
| -----                                 |            |   |
| Multi-Utilities - 3.1%                | 10,000,000 | Dominion Resources Capital Trust I, 7.83% due 12/01/2026  |
|                                       | 15,000,000 | Dominion Resources Capital Trust III, 8.40% due 1/15/2026 |
| -----                                 |            |   |
| Oil, Gas & Consumable Fuels - 1.2%    | 9,850,000  | Phillips 66 Capital Trust II, 8% due 1/15/2037            |
| -----                                 |            |   |

Preferred Income Strategies Fund, Inc.  
Schedule of Investments as of July 31, 2006

(in U.S. dollars)

Preferred Securities

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

| Industry                                 | Face<br>Amount   | Capital Trusts   |
|--|--|--|
| Thrifts & Mortgage<br>Finance - 4.6%     | \$ 1,000,000<br>5,000,000<br>5,760,000<br>12,765,000<br>3,005,000<br>9,775,000     | Astoria Capital Trust I, 9.75% due 11/01/2029 (a)<br>Astoria Capital Trust I Series B, 9.75% due 11/01/2029<br>Dime Capital Trust I Series A, 9.33% due 5/06/2027<br>Greenpoint Capital Trust I, 9.10% due 6/01/2027<br>ML Capital Trust I, 9.875% due 3/01/2027<br>Webster Capital Trust I, 9.36% due 1/29/2027 (a)               |
|  |  | Total Capital Trusts (Cost - \$519,183,448) - 59.8%  |
|  | Shares<br>Held   | Preferred Stocks   |
| Capital Markets - 2.0%                   | 96,000<br>600,000  | Goldman Sachs Group, Inc. Series A, 3.91% (b)<br>Lehman Brothers Holdings, Inc., 6.50%   |
| Commercial Banks - 7.9%                  | 435,200<br>4,000,000<br>137,579<br>4,650<br>166,800<br>750,000<br>23,000<br>48,000 | Banco Santander Central Hispano SA, 6.41%<br>Barclays Bank Plc, 6.278% (b)<br>First Republic Bank, 6.25%<br>First Tennessee Bank NA, 3.90% (a) (b)<br>Provident Financial Group, Inc., 7.75%<br>Royal Bank of Scotland Group Plc Series L, 5.75%<br>SG Preferred Capital II, 6.302%<br>Sovereign Bancorp, Inc. Series C, 7.30% (d) |
| Consumer Finance - 1.9%                  | 668,080  | Capital One Capital II, 7.50%  |
| Diversified Financial<br>Services - 4.1% | 855,000<br>272,000   | CIT Group, Inc. Series A, 6.35%<br>Cobank ACB, 7% (a)  |
| Electric Utilities - 4.2%                | 14,000<br>80,000<br>114,400<br>89,850<br>80,000<br>304,000<br>433,400              | Alabama Power Co., 5.83%<br>Duquesne Light Co., 6.50%<br>Entergy Arkansas, Inc., 6.45%<br>Entergy Louisiana LLC, 6.95% (a)<br>Interstate Power & Light Co. Series B, 8.375%<br>PPL Electric Utilities Corp., 6.25%<br>PPL Energy Supply LLC, 7%  |
| Gas Utilities - 1.6%                     | 556,000  | Southern Union Co., 7.55%  |
| Insurance - 8.6%                         | 880,000<br>140,000<br>139,200<br>1,260,000<br>140,000<br>9,800                     | ACE Ltd. Series C, 7.80%<br>Axis Capital Holdings Ltd. Series A, 7.25%<br>Endurance Specialty Holdings Ltd., 7.75%<br>MetLife, Inc. Series B, 6.50%<br>Prudential Plc, 6.50%<br>Zurich RegCaPS Funding Trust, 6.58% (a) (b)  |

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

|   |                      |   |
|---|----------------------|---|
| Multi-Utilities - 0.4%                                | 140,000              | Pacific Gas & Electric Co. Series A, 6%           |
| Thrifts & Mortgage Finance - 8.7%                     | 1,210,000<br>264,650 | Fannie Mae, 7% (b)<br>Fannie Mae Series L, 5.125% |
| Wireless Telecommunication Services - 0.3%            | 2,423                | Centaur Funding Corp., 9.08% (a)                  |
| Total Preferred Stocks (Cost - \$345,258,970) - 39.7% |                      |   |

Preferred Income Strategies Fund, Inc.  
Schedule of Investments as of July 31, 2006 (in U.S. dollars)

Preferred Securities

| Industry   | Shares Held | Real Estate Investment Trusts                          |
|--|-------------|--|
| Real Estate Investment Trusts (REITs) - 22.5%            | 251,400     | Alexandria Real Estate Equities, Inc. Series C, 8.375% |
|  | 400,000     | CBL & Associates Properties, Inc. Series C, 7.75%      |
|  | 600,000     | CarrAmerica Realty Corp. Series E, 7.50%               |
|  | 680,000     | Developers Diversified Realty Corp., 8%                |
|  | 80,000      | Duke Realty Corp. Series K, 6.50%                      |
|  | 2,390       | First Industrial Realty Trust, Inc., 6.236% (b)        |
|  | 4,000       | Firststar Realty LLC, 8.875% (a)                       |
|  | 768,000     | Health Care Property Investors, Inc. Series F, 7.10%   |
|  | 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. Series K, 7.95%                |
|  | 64,000      | PS Business Parks, Inc. Series M, 7.20%                |
|  | 160,000     | Public Storage, Inc. Series I, 7.25% (d)               |
|  | 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% (a)        |
|  | 145,000     | Vornado Realty Trust Series E, 7%                      |
|  | 130,000     | Wachovia Preferred Funding Corp. Series A, 7.25%       |
|  | 96,000      | Weingarten Realty Investors Series D, 6.75%            |
| Total Real Estate Investment Trusts (Cost - \$196,765,53 |             |  |

|                        | Face Amount | Trust Preferred   |
|------------------------|-------------|---|
| Capital Markets - 0.1% | \$ 875,000  | Lehman Brothers Holdings Capital Trust III Series K, 1. |

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

due 3/15/2052

-----  
 Communications 2,000,000 Corporate-Backed Trust Certificates, 8.375% due 11/15/20  
 Equipment - 0.2%

-----  
 Electric Utilities - 1.5% 4,750,000 Georgia Power Co. Series O, 1.475% due 4/15/2033  
 3,000,000 HECO Capital Trust III, 6.50% due 3/18/2034  
 5,000,000 National Rural Utilities Cooperative Finance Corp.,  
 6.75% due 2/15/2043  
 950,000 Virginia Power Capital Trust II, 1.844% due 7/30/2042

-----  
 Gas Utilities - 0.7% 500,000 Dominion CNG Capital Trust I, 1.95% due 10/31/2041  
 5,750,000 Southwest Gas Capital II, 7.70% due 9/15/2043

-----  
 Insurance - 3.3% 16,000,000 ABN AMRO North America Capital Funding Trust II,  
 5.384% (a) (b) (c)  
 7,375,000 Berkley W R Capital Trust, 6.75% due 7/26/2045  
 1,000,000 Everest Re Capital Trust, 1.963% due 11/15/2032  
 5,000,000 Lincoln National Capital VI Series F, 6.75% due 9/11/20

-----  
 Multi-Utilities - 0.1% 397,425 PSEG Funding Trust II, 8.75% due 12/31/2032

-----  
 Thrifts & Mortgage 27,000,000 Countrywide Financial Corp., 1.50% due 4/01/2033  
 Finance - 3.7% 6,000,000 Dime Community Capital I, 7% due 4/14/2034

-----  
 Total Trust Preferred (Cost - \$84,974,549) - 9.6%

-----  
 Total Preferred Securities (Cost - \$1,146,182,502) - 13

-----  
 Corporate Bonds

-----  
 Automobiles - 3.4% 22,500,000 DaimlerChrysler NA Holding Corp., 8.50% due 1/18/2031  
 5,000,000 Ford Motor Co., 7.45% due 7/16/2031

-----  
 Preferred Income Strategies Fund, Inc.  
 Schedule of Investments as of July 31, 2006

(in U.S. dollars)

-----  
 Industry Face  
 Amount Corporate Bonds

-----  
 Capital Markets - 0.5% \$ 4,000,000 Ameriprise Financial, Inc., 7.518% due 6/01/2066 (b)

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

|   |                                       |  |
|---|---------------------------------------|--|
| Commercial Banks - 3.5%                       | 5,000,000<br>20,000,000<br>4,800,000  | HBOS Plc, 5.92% (a) (b) (c)<br>Resona Preferred Global Securities Ltd., 7.191% (a) (b) (c)<br>Royal Bank of Scotland Group Plc, 9.118% (c)                         |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Diversified Financial Services - 2.5%         | 8,000,000<br>15,000,000               | Ford Motor Credit Co., 7% due 10/01/2013<br>Sigma Finance Corp., 7.405% due 8/15/2011 (e)  |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Diversified Telecommunication Services - 3.6% | 25,500,000                            | France Telecom SA, 8.50% due 3/01/2031   |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Electric Utilities - 1.2%                     | 10,000,000                            | FirstEnergy Corp. Series B, 6.45% due 11/15/2011   |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Insurance - 1.8%                              | 3,900,000<br>5,000,000<br>7,200,000   | Great West Life & Annuity Insurance Co., 7.153% due 5/15/2011<br>Oil Insurance Ltd., 7.558% (a) (b) (c)<br>ZFS Finance (USA) Trust I, 6.15% due 12/15/2065 (a) (b) |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Media - 3.4%                                  | 5,000,000<br>5,000,000<br>18,000,000  | Comcast Corp., 7.05% due 3/15/2033<br>Time Warner, Inc., 7.625% due 4/15/2031<br>Time Warner, Inc., 7.70% due 5/01/2032  |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Multi-Utilities - 2.8%                        | 4,800,000<br>16,575,000               | Dominion Resources, Inc., 7.50% due 6/30/2066 (b)<br>Duke Energy Field Services LLC, 8.125% due 8/16/2030  |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Oil, Gas & Consumable Fuels - 0.8%            | 7,225,000                             | Enterprise Products Operating LP, 8.375% due 8/01/2066   |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Road & Rail - 0.4%                            | 3,750,000                             | BNSF Funding Trust I, 6.613% due 12/15/2055 (b)  |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Thrifts & Mortgage Finance - 0.9%             | 8,000,000                             | Roslyn Real Estate Asset Corp. Series D, 9.149% (b) (c)  |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Wireless Telecommunication Services - 6.1%    | 18,000,000<br>2,000,000<br>24,000,000 | AT&T Wireless Services, Inc., 8.75% due 3/01/2031<br>Sprint Capital Corp., 6.90% due 5/01/2019<br>Sprint Capital Corp., 8.75% due 3/15/2032                        |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
|   |                                       | Total Corporate Bonds (Cost - \$268,410,798) - 30.9%   |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| Beneficial Interest                           |                                       | Short-Term Securities  |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
| \$  | 5,336,892                             | Merrill Lynch Liquidity Series, LLC Cash Sweep Series I  |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
|   |                                       | Total Short-Term Securities (Cost - \$5,336,892) - 0.6%  |
| <hr style="border-top: 1px dashed #000;"/>    |                                       |  |
|   |                                       | Total Investments (Cost - \$1,419,930,192*) - 163.1%   |

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

Liabilities in Excess of Other Assets - (0.2%)  
 Preferred Stock, at Redemption Value - (62.9%)  
 Net Assets Applicable to Common Stock - 100.0%

\* The cost and unrealized appreciation (depreciation) of investments as of July 31, 2006, as computed for federal income tax purposes, were as follows:

|                               |                  |
|-------------------------------|------------------|
| Aggregate cost                | \$ 1,413,700,407 |
|                               | =====            |
| Gross unrealized appreciation | \$ 40,752,610    |
| Gross unrealized depreciation | (25,989,309)     |
|                               | -----            |
| Net unrealized appreciation   | \$ 14,763,301    |
|                               | =====            |

- (a) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (b) Floating rate security.
- (c) The security is a perpetual bond and has no definite maturity date.
- (d) Depositary receipts.

Preferred Income Strategies Fund, Inc.  
 Schedule of Investments as of July 31, 2006 (in U.S. dollars)

- (e) Restricted security as to resale, representing approximately 1.7% of net assets was as follows:

| Issue                                     | Acquisition Date | Cost          | Value         |
|---|------------------|---------------|---------------|
| Sigma Finance Corp., 7.405% due 8/15/2011 | 2/13/2004        | \$ 15,000,000 | \$ 15,000,000 |

- (f) Investments in companies considered to be an affiliate of the Fund, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

| Affiliate   | Net Activity | Interest Income |
|---|--------------|-----------------|
| Merrill Lynch Liquidity Series, LLC Cash Sweep Series I | \$ 5,336,892 | \$912,065       |

- (g) Represents the current yield as of July 31, 2006.
- o For Fund compliance purposes, the Fund's industry classifications refer to any one or more of the industry sub-classifications used by one or more

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

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 industry sub-classifications for reporting ease. Industries are shown as a percent of net assets.

- o Financial futures contracts sold as of July 31, 2006 were as follows:

| Number of<br>Contracts | Issue                       | Expiration<br>Date | Face<br>Value  | Unrealized<br>Depreciation |
|------------------------|-----------------------------|--------------------|----------------|----------------------------|
| 2,771                  | 10-Year U.S. Treasury Notes | September 2006     | \$ 290,318,009 | \$ (3,494,585)             |

- o Swap contracts outstanding as of July 31, 2006 were as follows:

|  | Notional<br>Amount | Unrealized<br>Appreciation |
|--|--------------------|----------------------------|
| Sold credit default protection on a basket of preferred securities and receive 2.03% |                    |                            |
| Broker, Lehman Brothers Special Finance<br>Expires September 2007                    | \$ 36,000,000      | \$ 419,760                 |
| Pay a fixed rate of 5.2687% and receive a floating rate based on 3-month LIBOR       |                    |                            |
| Broker, HSBC Bank USA<br>Expires March 2016  | \$ 80,000,000      | 1,619,083                  |
| Pay a fixed rate of 5.117% and receive a floating rate based on 3-month LIBOR        |                    |                            |
| Broker, Lehman Brothers Special Finance<br>Expires March 2036                        | \$ 72,000,000      | 5,557,252                  |
| Total  |                    | \$ 7,596,095<br>=====      |

### 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



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

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/ Robert C. Doll, Jr.

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

Date: September 20, 2006

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 20, 2006

By: /s/ Donald C. Burke

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

Date: September 20, 2006