

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 Amount	Capital Trusts
Commercial Banks - 20.9%	\$ 12,035,000	ABN AMRO North America Holding Preferred Capital Repack 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)

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	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 1/15/2027

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

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Industry	Face Amount	Capital Trusts
Thrifts & Mortgage Finance - 4.6%	\$ 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) Astoria Capital Trust I Series B, 9.75% due 11/01/2029 Dime Capital Trust I Series A, 9.33% due 5/06/2027 Greenpoint Capital Trust I, 9.10% due 6/01/2027 ML Capital Trust I, 9.875% due 3/01/2027 Webster Capital Trust I, 9.36% due 1/29/2027 (a)
		Total Capital Trusts (Cost - \$519,183,448) - 59.8%

	Shares Held	Preferred Stocks
Capital Markets - 2.0%	96,000 600,000	Goldman Sachs Group, Inc. Series A, 3.91% (b) Lehman Brothers Holdings, Inc., 6.50%
Commercial Banks - 7.9%	435,200 4,000,000 137,579 4,650 166,800 750,000 23,000 48,000	Banco Santander Central Hispano SA, 6.41% Barclays Bank Plc, 6.278% (b) First Republic Bank, 6.25% First Tennessee Bank NA, 3.90% (a) (b) Provident Financial Group, Inc., 7.75% Royal Bank of Scotland Group Plc Series L, 5.75% SG Preferred Capital II, 6.302% Sovereign Bancorp, Inc. Series C, 7.30% (d)
Consumer Finance - 1.9%	668,080	Capital One Capital II, 7.50%
Diversified Financial Services - 4.1%	855,000 272,000	CIT Group, Inc. Series A, 6.35% Cobank ACB, 7% (a)
Electric Utilities - 4.2%	14,000 80,000 114,400 89,850 80,000 304,000 433,400	Alabama Power Co., 5.83% Duquesne Light Co., 6.50% Entergy Arkansas, Inc., 6.45% Entergy Louisiana LLC, 6.95% (a) Interstate Power & Light Co. Series B, 8.375% PPL Electric Utilities Corp., 6.25% PPL Energy Supply LLC, 7%
Gas Utilities - 1.6%	556,000	Southern Union Co., 7.55%
Insurance - 8.6%	880,000 140,000 139,200 1,260,000 140,000 9,800	ACE Ltd. Series C, 7.80% Axis Capital Holdings Ltd. Series A, 7.25% Endurance Specialty Holdings Ltd., 7.75% MetLife, Inc. Series B, 6.50% Prudential Plc, 6.50% 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 - 8.7%	1,210,000 264,650	Fannie Mae, 7% (b) 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%		

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Preferred Securities

Industry	Shares Held	Real Estate Investment Trusts
Real Estate Investment Trusts (REITs) - 22.5%	251,400 400,000 600,000 680,000 80,000 2,390 4,000 768,000 172,800 684,700 1,600,000 72,000 64,000 160,000 320,000 58,000 607,550 11,857 145,000 130,000 96,000	Alexandria Real Estate Equities, Inc. Series C, 8.375% CBL & Associates Properties, Inc. Series C, 7.75% CarrAmerica Realty Corp. Series E, 7.50% Developers Diversified Realty Corp., 8% Duke Realty Corp. Series K, 6.50% First Industrial Realty Trust, Inc., 6.236% (b) Firststar Realty LLC, 8.875% (a) Health Care Property Investors, Inc. Series F, 7.10% Health Care REIT, Inc. Series F, 7.625% Kimco Realty Corp. Series F, 6.65% New Plan Excel Realty Trust Series E, 7.625% PS Business Parks, Inc. Series K, 7.95% PS Business Parks, Inc. Series M, 7.20% Public Storage, Inc. Series I, 7.25% (d) Public Storage, Inc. Series X, 6.45% Regency Centers Corp., 7.25% Regency Centers Corp., 7.45% Sovereign Real Estate Investment Corp., 12% (a) Vornado Realty Trust Series E, 7% Wachovia Preferred Funding Corp. Series A, 7.25% 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.

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due 3/15/2052

 Communications 2,000,000 Corporate-Backed Trust Certificates, 8.375% due 11/15/2052
 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 9/11/2042

 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) - 13.3%

 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

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(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)

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

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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.

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- (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

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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 Contracts	Issue	Expiration Date	Face Value	Unrealized 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 Amount	Unrealized Appreciation
Sold credit default protection on a basket of preferred securities and receive 2.03%		
Broker, Lehman Brothers Special Finance 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 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 Expires March 2036	\$ 72,000,000	5,557,252
Total		\$ 7,596,095 =====

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

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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