

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

PREFERRED INCOME STRATEGIES FUND INC  
Form N-CSRS  
June 30, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

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: 11/01/03 - 04/30/04

Item 1 - Report to Stockholders

[LOGO] Merrill Lynch Investment Managers

[www.mlim.ml.com](http://www.mlim.ml.com)

Preferred Income  
Strategies Fund, Inc.

Semi-Annual Report  
April 30, 2004

[LOGO] Merrill Lynch Investment Managers

Preferred Income Strategies Fund, Inc.

The Benefits and Risks of Leveraging

Preferred Income Strategies Fund, Inc. utilizes leveraging through borrowings or issuance of short-term debt securities or shares of Preferred Stock. The concept of leveraging is based on the premise that the cost of assets to be obtained from leverage will be based on short-term interest or dividend rates, which normally will be lower than the income earned by the Fund on its longer-term portfolio investments. To the extent that the total assets of the Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Fund's Common Stock shareholders are the beneficiaries of the incremental yield.

Leverage creates risks for holders of Common Stock including the likelihood of greater net asset value and market price volatility. In addition, there is the risk that fluctuations in interest rates on borrowings (or in the dividend rates

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on any Preferred Stock, if the Fund were to issue Preferred Stock) may reduce the Common Stock's yield and negatively impact its net asset value and market price. If the income derived from securities purchased with assets received from leverage exceeds the cost of leverage, the Fund's net income will be greater than if leverage had not been used. Conversely, if the income from the securities purchased is not sufficient to cover the cost of leverage, the Fund's net income will be less than if leverage had not been used, and therefore the amount available for distribution to Common Stock shareholders will be reduced.

### Officers and Directors

Terry K. Glenn, President and Director  
David O. Beim, Director  
James T. Flynn, Director  
W. Carl Kester, Director  
Karen P. Robards, Director  
John Burger, Vice President  
Thomas Musmanno, Vice President  
Donald C. Burke, Vice President and Treasurer  
Phillip S. Gillespie, Secretary

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Todd Goodwin and George W. Holbrook, Directors of Preferred Income Strategies Fund, Inc., have recently retired. The Fund's Board of Directors wishes Messrs. Goodwin and Holbrook well in their retirements.  
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### Custodian

State Street Bank and Trust Company  
P.O. Box 351  
Boston, MA 02101

### Transfer Agent

#### Common Stock:

EquiServe  
P.O. Box 43010  
Providence, RI 02940-3010

#### Preferred Stock:

The Bank of New York  
101 Barclay Street -- 7 West  
New York, NY 10286

#### NYSE Symbol

PSY

### Electronic Delivery

The Fund offers electronic delivery of communications to its shareholders. In order to receive this service, you must register your account and provide us with e-mail information. To sign up for this service, simply access this website <http://www.icsdelivery.com/live> and follow the instructions. When you visit this site, you will obtain a personal identification number (PIN). You will need this PIN should you wish to update your e-mail address, choose to discontinue this service and/or make any other changes to the service. This service is not available for certain retirement accounts at this time.

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PREFERRED INCOME STRATEGIES FUND, INC.

APRIL 30, 2004

A Letter From the President

Dear Shareholder

Index returns during the most recent six-month reporting period indicate that fixed income markets continued to reward those investors who were willing to accept greater risk. The high yield market, as measured by the Credit Suisse First Boston High Yield Index, provided a return of +6.33% for the six months ended April 30, 2004. By comparison, the Merrill Lynch U.S. Corporate Master Index and the Merrill Lynch AAA U.S. Treasuries/Agencies 1 - 10 Year Index returned +1.89% and +.67%, respectively, for the same period.

Throughout the period, short-term interest rates remained at historic lows and kept the short end of the yield curve relatively flat, making it increasingly difficult to find attractive income opportunities. As of April month-end, the Federal Reserve Board maintained its accommodative policy stance, although a better-than-expected employment report for the month of March prompted speculation that an interest rate increase could come sooner than many had expected. On April 2, 2004, the good news on the employment front -- previously the one dim spot in an otherwise bright economic picture -- helped prompt the yield on the 10-year Treasury note to spike nearly 25 basis points (.25%), from 3.91% to 4.15%. Market watchers continue to monitor economic data and Federal Reserve Board language for indications of interest rate direction. If economic growth maintains its recent pace and employment figures continue to improve, many believe it is just a matter of time before interest rates move upward.

Equity markets, in the meantime, gleaned support from the improving economic environment and provided attractive returns. For the six-month period ended April 30, 2004, the Standard & Poor's 500 Index returned +6.27%. Significant fiscal and monetary stimulus in 2003, including low interest rates and tax cuts, has opened the door to consumer spending, capital spending, increases in exports and long-awaited job growth. As expected, these developments have led the way to improvements in corporate earnings -- a positive for stock markets.

The events and efforts of the past year leave us with a much stronger economy today. Of course, markets will always fluctuate, and there are many uncertainties -- not the least of which are geopolitical in nature -- which can translate into negative market movements. Keeping this in mind, however, we encourage you to revisit your portfolio and your asset allocation strategy to ensure you are well positioned to take advantage of the opportunities that lie ahead. Importantly, your financial advisor can help you develop a strategy most suitable for your circumstances through all types of market and economic cycles.

We thank you for trusting Merrill Lynch Investment Managers with your investment assets, and we look forward to serving you in the months and years ahead.

Sincerely,

/s/ Terry K. Glenn

Terry K. Glenn  
President and Director

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APRIL 30, 2004

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### A Discussion With Your Fund's Portfolio Managers

The Fund recorded a positive return and outperformed its benchmark in a period characterized by generally rising interest rates.

How did the Fund perform during the period in light of the existing market conditions?

For the six-month period ended April 30, 2004, the Common Stock of Preferred Income Strategies Fund, Inc. had net annualized yields of 9.50% and 10.39%, based on a period-end per share net asset value of \$23.91 and a per share market price of \$21.85, respectively, and \$1.132 per share income dividends. For the same period, the total investment return on the Fund's Common Stock was +2.53%, based on a change in per share net asset value from \$24.53 to \$23.91, and assuming reinvestment of \$1.127 per share ordinary income dividends and \$.094 per share capital gains distributions. For the same period, the unmanaged Merrill Lynch Preferred Stock Fixed Rate Index returned -.03%.

For a description of the Fund's total investment return based on a change in the per share market value of the Fund's Common Stock (as measured by the trading price of the Fund's shares on the New York Stock Exchange), and assuming reinvestment of dividends, please refer to the Financial Highlights section included in this report. As a closed-end fund, the Fund's shares may trade in the secondary market at a premium or discount to the Fund's net asset value. As a result, total investment returns based on changes in the market value of the Fund's Common Stock can vary significantly from total investment returns based on changes in the Fund's net asset value.

Long-term interest rates declined somewhat early in the period, then rose significantly in April. Throughout the period, we positioned the Fund with a duration that was relatively short versus that of its benchmark, the Merrill Lynch Preferred Stock Fixed Rate Index. This strategy proved successful as the 10-year U.S. Treasury note declined 1.36% between October 31, 2003 and April 30, 2004, while its yield increased from 4.30% to 4.50%. The unmanaged Merrill Lynch U.S. Corporate Master Index and the Merrill Lynch U.S. Treasury/Agency Master Index returned +1.89% and +.80%, respectively, for the same period.

Our use of hedge strategies also enhanced Fund performance. Hedges were used in an effort to reduce the risk of loss associated with rising interest rates. Among the hedges we implemented during the period were interest rate swaps, U.S. Treasury futures and options on Treasury futures. During the period, we swapped some fixed rate securities for variable rate issues. When interest rates increase, the value of a variable rate security does not fall as much as that of a fixed rate issue because its interest payments would adjust periodically to keep pace with rising interest rates. Therefore, these swaps had a positive effect on the Fund's return as interest rates moved higher late in the period. Conversely, a fixed rate security would generally outperform a variable rate obligation in a declining interest rate environment.

Our holdings in institutional preferred issues and underweights in \$25 par retail preferred and agency preferred securities also had a positive effect on the Fund's comparative performance.

What is the Fund's investment objective?

The Fund's primary objective is to provide shareholders with current income. The secondary objective is to seek capital appreciation. To these ends, we invest primarily in a diversified portfolio of preferred securities, including convertible preferred securities that may be converted into common stock or other securities of the same or a different issuer. At least 80% of the Fund's

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total assets are invested in securities rated in the investment grade rating categories of the established bond rating services. Unrated securities held in the portfolio would be those that we consider to be of comparable credit quality.

What changes were made to the portfolio during the period?

As interest rates moved higher, we reduced the portfolio's duration -- which already was shorter than that of its benchmark -- by two years. We trimmed the Fund's exposure to

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insurance, utilities and U.S. agencies, and added to its holdings in the banking sector. The insurance sector had outperformed the overall preferred securities market for some time, so we took profits on some of our holdings. We increased the Fund's position in banking because we believed it was the highest quality sector within the market.

Additionally, late in the period we reduced our holdings in preferred securities that trade on the New York Stock Exchange and reinvested the proceeds in preferred securities that trade in the over-the-counter market. Exchange traded preferred securities are more vulnerable to extended rises in interest rates and the reduction in exposure was a positive contribution to performance as interest rates rose.

How would you characterize the Fund's position at the close of the period?

We have positioned the Fund with a short duration relative to its benchmark index, as we believe long-term interest rates will continue to rise. The portfolio also has extensive positive convexity. That is, as interest rates move up, the portfolio's duration will fall, and vice versa. We believe the Fund's duration will decrease further as interest rates continue to rise.

The portfolio is well diversified among issuers, and we intend to maintain the diversification of our holdings across issuers and sectors. We also will consider options to increase the Fund's yield and hedges to extend its duration relative to the benchmark.

At April 30, 2004, the Fund was approximately 36% leveraged. (For a more complete explanation of the benefits and risks of leveraging, see page 2 of this report to shareholders.) Also at period-end, the portfolio carried an average credit rating of Baa1 from Moody's, down slightly from an A3 rating at the beginning of the period. Approximately 85.1% of the Fund's assets was invested in securities rated Baa1 or higher at April 30, 2004.

John Burger  
Vice President and Portfolio Manager

Thomas Musmanno  
Vice President and Portfolio Manager

May 11, 2004

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Schedule of Investments

(in U.S. dollars)

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Preferred Securities

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Industry+	S&P Ratings	Moody's Ratings	Face Amount	Capital Trusts
Auto--1.3%	BB	Baa3	\$13,000,000	Delphi Trust II, 6.197% due 11/15/203
Banks--15.0%	A-	A3	12,035,000	ABN AMRO North America Holding Prefer Repackaging Trust I, 6.523% (a) (b) (d)
	A-	A2	11,000,000	Abbey National Capital Trust I, 8.963
	BBB+	A1	2,000,000	Bank One Capital III, 8.75% due 9/01/
	A-	A2	1,000,000	Chase Capital I, 7.67% due 12/01/2026
	A-	A2	5,000,000	Chase Capital II, 1.679% due 2/01/202
	BBB+	A3	37,000,000	Dresdner Funding Trust I, 8.151% due
	A	NR*	7,500,000	HBOS Capital Funding LP, 6.85% (d)
	A-	A2	2,000,000	HSBC Americas Capital Trust I, 7.808% due 12/15/2026 (a)
	A-	A2	15,835,000	HSBC Capital Funding LP, 10.176% (a) (
	NR*	NR*	12,275,000	Hubco Capital Trust II, 7.65% due 6/1
	A+	Aa2	5,000,000	Lloyds TSB Bank PLC, 6.90% (d)
	A-	Aa3	5,000,000	NB Capital Trust III, 1.69% due 1/15/
	A	A1	970,000	RBS Capital Trust I, 4.709% (b) (d)
	A-	A2	2,000,000	Republic New York Capital II, 7.53% d
	A-	A2	10,000,000	Westpac Capital Trust III, 5.819% (a)
Electric--5.3%	BBB-	Baa2	10,000,000	Dominion Resources Capital Trust I, 7 due 12/01/2027
	BBB-	Baa2	15,000,000	Dominion Resources Capital Trust III, due 1/15/2031
	BB+	Ba2	14,950,000	REI Capital Trust II, 8.257% due 2/01
	BB+	Baa2	9,500,000	SWEPSCO Capital Trust I, 5.25% due 10/
Finance--3.5%	BBB+	A3	10,000,000	CIT Capital Trust I, 7.70% due 2/15/2
	A-	A1	11,300,000	Goldman Sachs Capital I, 6.345% due 2
	BB+	Baa3	1,000,000	MBNA Capital A, 8.278% due 12/01/2026
	A+	A1	10,000,000	Sun Life of Canada (U.S.) Capital Tru 8.526% (a) (d)
Financial--0.5%	NR*	Baa1	4,500,000	St.George Bank Funding Company, LLC,
Financial Services--	A-	A2	998,000	JPM Capital Trust I, 7.54% due 1/15/2
Other--0.1%				
Gas--0.6%	BBB	Baa2	5,000,000	AGL Capital Trust, 8.17% due 6/01/203
Insurance--7.0%	BBB	Baa3	28,165,000	AON Capital Trust, 8.205% due 1/01/20
	AA	Aa1	2,000,000	American General Institutional Capita due 3/15/2046 (a)
	A-	A2	6,066,000	ING Capital Funding Trust III, 8.439%

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	BB	Ba1	1,000,000	Markel Capital Trust I, 8.71% due 1/0
	A+	A2	6,325,000	Principal Life Insurance Company, 8% due 3/01/2044 (a)
	BBB	Baa1	14,000,000	QBE Insurance Group Limited, 5.647% due 7/01/2023 (a) (b)
	A-	Baa1	6,225,000	Transamerica Capital III, 7.625% due
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Insurance--	BBB+	A3	23,725,000	Axa, 8.60% due 12/15/2030 (Surplus No
Multiline--4.5%	BBB+	A3	1,000,000	GenAmerica Capital I, 8.525% due 6/30
	BBB-	Baa2	11,566,000	Safeco Capital Trust I, 8.072% due 7/
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Oil--2.1%	BBB	Baa2	9,850,000	ConocoPhillips Capital Trust II, 8% due 1/15/2037 (a)
	A-	A2	10,000,000	Oil Insurance Limited, 5.15% due 8/15
=====				
Pipelines--0.8%	BB+	Baa3	5,000,000	K N Capital Trust I, 8.56% due 4/15/2
	BB+	Baa3	1,750,000	K N Capital Trust III, 7.63% due 4/15
=====				
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Schedule of Investments (continued) (in U.S. dollars)				
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Preferred Securities (continued)				
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Industry+	S&P Ratings	Moody's Ratings	Face Amount	Capital Trusts
=====				
Reinsurance--4.2%	BBB-	Baa1	\$22,100,000	ACE Capital Trust II, 9.70% due 4/01/
	A-	Baa2	10,000,000	Zurich Capital Trust I, 8.376% due 6/
=====				
Savings & Loan Associations--2.9%	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)
	BB	Baa2	12,765,000	GreenPoint Capital Trust I, 9.10% due
	BB	NR*	5,775,000	Webster Capital Trust I, 9.36% due 1/
=====				
Special Situations-- 4.4%	NR*	NR*	15,000,000	AgFirst Farm Credit Bank, 8.393% due
	BBB+	Baa3	15,000,000	Farmers Exchange Capital, 7.05% due 7
	AA-	Aa3	11,000,000	Swedish Export Credit Corporation, 6.
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Total Investments in Capital Trusts  
(Cost--\$497,953,471)--52.2%

	Shares Held	Preferred Stocks
Banks--7.8%	150	BBVA Privanza International (Gibraltar) 7.764% (a)
	435,200	Banco Santander Central Hispano SA, 6
	320,000	CoBank, ACB, 7%
	200,000	MBNA Corporation, 5.50% (b)
	1,250,000	Royal Bank of Scotland Group PLC, 5.7
Electric--3.4%	14,000	Alabama Power Company, 5.83%
	11,109	Connecticut Light and Power Company,
	11,394	Delmarva Power & Light Company, 4.20%
	21,250	Delmarva Power & Light Company, 4.28%
	8,200	Delmarva Power & Light Company, 4.56%
	200,000	Interstate Power and Light Company, 8
	12,400	Public Service Electric and Gas Compa
	17,372	South Carolina Electric & Gas Company
	200,000	TXU Corporation, 7.24% (b)
Electric Utilities--0.4%	80,000	Duquesne Light Company, 6.50%
Finance--4.6%	334,000	Federal National Mortgage Association
	120,000	Lehman Brothers Holdings, Inc., 3% (b)
	200,000	Lehman Brothers Holdings, Inc., 5.94%
	600,000	Lehman Brothers Holdings, Inc., 6.50%
Gas--1.7%	626,000	Southern Union Company, 7.55%
Insurance--2.5%	880,000	ACE Limited, 7.80%
Miscellaneous Materials & Commodities--3.0%	26,000	SG Preferred Capital II, 6.302%
Oil--0.7%	64,500	Apache Corporation, 5.68%
Printing & Publishing-- 0.5%	200,000	Newscorp Overseas Limited, 5.75% (b)
Reinsurance--3.8%	25,000	Zurich Regcaps Funding Trust I, 6.01%
	10,000	Zurich Regcaps Funding Trust II, 6.58%

PREFERRED INCOME STRATEGIES FUND, INC.

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Schedule of Investments (continued)

(in U.S. dollars)

Preferred Securities (continued)

Industry+	Shares Held	Preferred Stocks
Sovereign Government Obligations--0.9%	9,000,000	Farm Credit Bank of Texas, 7.561% (b)
Specialty Markets--0.2%	80,000	Corporate-Backed Trust Certificates,
Wireless Communication--4.0%	30,423	Centaur Funding Corporation, 9.08%
		Total Investments in Preferred Stocks (Cost--\$314,737,865)--33.5%

Real Estate Investment Trusts

Real Estate Investment Trusts	196,000	AMB Property Corporation, 6.50%
	124,000	AMB Property Corporation, 6.75%
	290,000	BRE Properties, Inc., 6.75%
	400,000	CBL & Associates Properties, Inc., 7.50%
	600,000	CarrAmerica Realty Corporation, 7.50%
	200,000	Cousins Properties, Inc., 7.75%
	280,000	Developers Diversified Realty Corpora
	780,000	Developers Diversified Realty Corpora
	270,000	Duke Realty Corporation, 6.50%
	100,000	Duke Realty Corporation, 6.625%
	787,000	Equity Residential Properties Trust,
	4,000	Firststar Realty LLC, 8.875% (a)
	768,000	Health Care Property Investors, Inc.,
	686,000	Kimco Realty Corporation, 6.65%
	1,600,000	New Plan Excel Realty Trust, 7.625%
	161,400	PS Business Parks, Inc., 7%
	320,000	Public Storage, Inc., 6.45%
	607,550	Regency Centers Corporation, 7.45%
	11,857	Sovereign Real Estate Investment Trus
	130,000	Wachovia Preferred Funding Corporatio
	600,000	Weingarten Realty Investors, Inc., 6.
		Total Investments in Real Estate Inve (Cost--\$244,672,085)--25.0%

	S&P Ratings	Moody's Ratings	Face Amount	Trust Preferred
Aerospace & Defense--3.1%	NR*	NR*	\$27,450,000	RC Trust I, 7% due 5/15/2006

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Auto--1.1%	BB	Baa3	10,000,000	Delphi Trust I, 8.25% due 10/15/2033
Banks--0.7%	A-	A2	7,375,000	J.P. Morgan Chase Capital XI, 5.875%
Electric--1.6%	A	A2	11,750,000	Georgia Power Company, 5.90% due 4/15/2033
	BBB-	Baa2	3,000,000	HECO Capital Trust III, 6.50% due 3/15/2033
	BB+	Baa1	280,000	Met-Ed Capital Trust, 7.35% due 9/01/2033
	BB+	Baa3	397,425	PSEG Funding Trust II, 8.750% due 12/15/2033
	BBB	Baa1	950,000	Virginia Power Capital Trust II, 7.375% due 12/15/2033

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Schedule of Investments (continued) (in U.S. dollars)

Preferred Securities (concluded)

Industry+	S&P Ratings	Moody's Ratings	Face Amount	Trust Preferred
Finance--3.6%	BBB+	Baa1	\$27,000,000	Countrywide Capital IV, 6.75% due 4/01/2033
	NR*	A1	1,000,000	Household Finance Corporation, 6.875% due 12/15/2033
	BBB+	A3	875,000	Lehman Brothers Holdings Capital Trust III, 6.75% due 3/15/2052
	A-	A1	3,317,000	Morgan Stanley Capital Trust III, 6.25% due 12/15/2033
	NR*	NR*	4,000,000	Principal Protected PreTSL IX, Ltd., 6.75% due 4/03/2033
Gas--0.9%	BB	Baa3	8,750,000	Southwest Gas Capital II, 7.70% due 9/15/2033
Insurance--2.1%	A	A3	16,000,000	ABN AMRO North America Capital Funding Trust III, 1.225% (a) (b) (d) due 12/15/2033
	BBB	Baa1	5,000,000	Lincoln National Capital VI, 6.75% due 12/15/2033
Pipelines--0.0%	BBB-	Baa1	500,000	Dominion-CNG Capital Trust I, 7.80% due 12/15/2033
Reinsurance--0.1%	BBB	Baa1	1,000,000	Everest Re Capital Trust, 7.85% due 12/15/2033
Savings & Loan Associations--0.6%	NR*	NR*	6,000,000	Dime Community Capital I, 7% due 4/14/2033
Special Situations--0.5%	BBB+	A3	5,000,000	Natural Rural Utilities Cooperative Funding Trust I, 6.75% due 2/15/2043
				Total Investments in Trust Preferred (Cost--\$140,768,536)--14.3%
				Total Investments in Preferred Securities

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(Cost--\$1,198,131,957)--125.0%

Corporate Bonds

Auto--1.0%	BBB-	Baa1	10,000,000	Ford Motor Company, 7.45% due 7/16/20
Broadcasting/Media--1.0%	BBB-	Baa3	10,000,000	Liberty Media Corporation, 5.70% due
Cable Television Services--1.1%	BBB	Baa3	10,000,000	Comcast Corporation, 7.05% due 3/15/2
Cellular Telephones--3.5%	BBB	Baa2	28,000,000	AT&T Wireless Services, Inc., 8.75% d
Diversified Financials--5.1%	B+	Baa2	11,500,000	Fuji JGB Investment LLC, 9.87% (a) (b)
	BBB	A3	29,000,000	General Motors Acceptance Corporation due 11/01/2031
	B+	Baa3	5,000,000	SB Treasury Company LLC, 9.40% (a) (b)
Electronics--1.1%	BB+	Baa3	10,000,000	FirstEnergy Corp., 6.45% due 11/15/20
Finance--1.6%	AAA	Aaa	15,000,000	Sigma Finance Corporation, 1.12% due
Foods--0.5%	BBB	Baa3	4,800,000	Tyson Foods, Inc., 7% due 1/15/2028
Multimedia--2.6%				Time Warner Inc.:
	BBB+	Baa1	5,000,000	7.625% due 4/15/2031
	BBB+	Baa1	18,000,000	7.70% due 5/01/2032
Oil Field Services--2.0%	BBB	Baa2	16,575,000	Duke Energy Field Services, LLC, 8.12% due 8/16/2030
Reinsurance--1.2%	A-	A1	10,000,000	GE Global Insurance Holding Corporation due 6/15/2030

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Schedule of Investments (continued)

(in U.S. dollars)

Industry+	S&P Ratings	Moody's Ratings	Face Amount	Corporate Bonds
Savings & Loan Associations--0.8%	NR*	NR*	\$ 8,000,000	Roslyn Real Estate Asset Corporation,
Telephone--6.9%	BBB+	Baa2	28,000,000	France Telecom, 9.50% due 3/01/2031

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			Sprint Capital Corporation:
BBB-	Baa3	2,000,000	6.90% due 5/01/2019
BBB-	Baa3	24,000,000	8.75% due 3/15/2032

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 Total Investments in Corporate Bonds  
 (Cost--\$266,042,673)--28.4%  
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Beneficial Interest/  
 Face Amount      Short-Term Securities  
 =====

\$ 4,132,734	Merrill Lynch Liquidity Series, LLC C Series I (c)
\$ 8,000,000	U.S. Treasury Bills, 0.898% due 5/06/

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 Total Investments in Short-Term Securities  
 (Cost--\$12,132,135)--1.3%  
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 Options  
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Number of  
 Contracts      Put Options Purchased  
 =====

97	Swaption, expiring September 2008 at Lehman Brothers Special Finance (e)
1,010	U.S. Treasury Bonds, expiring May 2008 Broker HSBC Securities Inc.
1,250	U.S. Treasury Bonds, expiring May 2008 Broker Greenwich Capital Markets
504	U.S. Treasury Bonds, expiring May 2008 Broker HSBC Securities Inc.
746	U.S. Treasury Bonds, expiring May 2008 Broker Greenwich Capital Markets
1,250	U.S. Treasury Notes, expiring June 2008 Broker Greenwich Capital Markets
625	U.S. Treasury Notes, expiring June 2008 Broker HSBC Securities Inc.
1,250	U.S. Treasury Notes, expiring June 2008 Broker HSBC Securities Inc.

-----  
 Total Options Purchased  
 (Premiums Paid--\$13,207,351)--1.3%  
 =====

Total Investments (Cost--\$1,489,514,135)  
 =====

-----  
 Put Options Written  
 =====

175	Swaption, expiring September 2008 at Lehman Brothers Special Finance (e)
1,250	U.S. Treasury Notes, expiring June 2008

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Broker HSBC Securities, Inc.

-----  
 Total Options Written  
 (Premiums Received--\$11,127,500)--(0.0%)  
 =====  
 Total Investments, Net of Options Written (Cost--\$1,478,386,616)--155.1%  
 Other Assets Less Liabilities--1.6%  
 Preferred Stock, at Redemption Value--(56.7%)  
 Net Assets Applicable to Common Stock--100.0%

- \* Not Rated.
- + 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.
  - (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.

10 PREFERRED INCOME STRATEGIES FUND, INC. APRIL 30, 2004

Schedule of Investments (concluded) (in U.S. dollars)

- (c) Investments in companies considered to be an affiliate of the Fund (such companies are defined as "Affiliated Companies" in Section 2(a)(3) of the Investment Company Act of 1940) are as follows:

Affiliate	Net Activity	Interest Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	(17,634,679)	\$39,316

- (d) The security is a perpetual bond and has no definite maturity date.
- (e) This European style swaption, which can be exercised only on 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.
- (f) Certain U.S. Government Obligations are traded on a discount basis; the interest rate shown reflects the discount rate paid at the time of purchase by the Fund.

Swap contracts entered into as of April 30, 2004 were as follows:

Notion Amount
-----

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Receive a variable rate equal to 1-month LIBOR at quarterly reset date 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 at quarterly reset date 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 at quarterly reset date 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 at quarterly reset date 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 at quarterly reset date and pay a fixed rate of 5.075%. Broker, J.P. Morgan Chase Bank Expires July 2014	\$250,000
Receive a variable rate equal to 3-month LIBOR at quarterly reset date and pay a fixed rate of 5.216%. Broker, Morgan Stanley Capital Services, Inc. Expires July 2014	\$300,000
-----	
Total	

See Notes to Financial Statements.

PREFERRED INCOME STRATEGIES FUND, INC.                      APRIL 30, 2004                      11

[LOGO] Merrill Lynch Investment Managers

Statement of Net Assets

As of April 30, 2004

Assets

Investments in unaffiliated securities, at value (identified cost--\$1,472,174,031) .....	
Investments in affiliated securities, at value (identified cost--\$4,132,734) .....	
Options purchased, at value (premiums paid--\$13,207,351) ...	
Unrealized appreciation on swaps .....	
Cash .....	
Receivables:	
Interest (including \$115 from affiliates) .....	\$ 18,002,1
Dividends .....	816,2
	-----

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Prepaid expenses .....  
 Total assets .....

Liabilities

Unrealized depreciation on swaps .....  
 Options written, at value (premiums received--\$11,127,500) .  
 Payables:  
     Swaps ..... 1,900,3  
     Dividends to Common Stock shareholders ..... 1,207,2  
     Investment adviser ..... 884,8  
     Offering costs ..... 36,2  
     Other affiliates ..... 10,6  
 -----  
 Accrued expenses and other liabilities .....  
 Total liabilities .....

Preferred Stock

Preferred Stock, at redemption value, par value \$.10 per  
 share (2,800 Series M7 Shares, 2,800 Series T7 Shares, 2,800  
 Series W7 Shares, 2,800 Series TH7 Shares, 2,800 Series F7  
 Shares, 4,000 Series W28 Shares and 4,000 Series TH28 Shares  
 of AMPS\* issued and outstanding at \$25,000 per share  
 liquidation preference) .....

Net Assets Applicable to Common Stock

Net assets applicable to Common Stock .....

Analysis of Net Assets Applicable to Common Stock

Common Stock, par value \$.10 per share (40,593,070 shares  
 issued and outstanding) .....  
 Paid-in capital in excess of par .....  
 Undistributed investment income--net ..... \$ 3,049,6  
 Accumulated realized capital losses on investments--net .... (22,473,4  
 Unrealized appreciation on investments--net ..... 27,278,4  
 -----  
 Total accumulated earnings--net .....  
 Total--Equivalent to \$23.91 net asset value per share of  
 Common Stock (market price--\$21.85) .....

\* Auction Market Preferred Stock  
 See Notes to Financial Statements.

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For the Six Months Ended April 30, 2004

Investment Income

Interest (including \$39,316 from affiliates) .....  
 Dividends .....  
 Total income .....

Expenses

Investment advisory fees .....	\$ 4,628,4
Commission fees .....	685,6
Accounting services .....	224,7
Transfer agent fees .....	54,3
Professional fees .....	46,5
Directors' fees and expenses .....	46,1
Custodian fees .....	44,6
Printing and shareholder reports .....	29,6
Listing fees .....	15,5
Pricing fees .....	5,2
Other .....	23,5
<hr/>	
Total expenses .....	
Investment income--net .....	

Realized & Unrealized Gain (Loss) on Investments--Net

Realized loss on investments--net .....  
 Change in unrealized appreciation/depreciation on  
 investments--net .....  
 Total realized and unrealized loss on investments--net .....

Dividends & Distributions to Preferred Stock Shareholders

Investment income--net .....  
 Realized gain on investments--net .....  
 Total dividends and distributions to Preferred Stock  
 shareholders .....  
 Net Increase in Net Assets Resulting from Operations .....

See Notes to Financial Statements

PREFERRED INCOME STRATEGIES FUND, INC.

APRIL 30, 2004

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[LOGO] Merrill Lynch Investment Managers

Statements of Changes in Net Assets



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	For the Six Months End April 30, 2004
Increase (Decrease) in Net Assets:	
=====	
Operations	
-----	
Investment income--net .....	\$ 43,371,3
Realized gain (loss) on investments--net .....	(36,423,9
Change in unrealized appreciation/depreciation on investments--net .....	20,589,0
Dividends and distributions to Preferred Stock shareholders	(3,179,4
Net increase in net assets resulting from operations .....	24,357,0
-----	
Dividends and Distributions to Common Stock Shareholders	
-----	
Investment income--net .....	(45,747,3
Realized gain on investments--net .....	(3,830,6
Net decrease in net assets resulting from dividends and distributions to Common Stock shareholders .....	(49,578,0
-----	
Stock Transactions	
-----	
Net proceeds from issuance of Common Stock .....	
Value of shares issued to Common Stock shareholders in reinvestment to dividends .....	
Offering costs resulting from the issuance of Common Stock .	
Offering and underwriting costs resulting from the issuance of Preferred Stock .....	
Net increase in net assets derived from stock transactions .	
-----	
Net Assets Applicable to Common Stock	
-----	
Total increase (decrease) in net assets applicable to Common Stock .....	(25,221,0
Beginning of period .....	995,722,2
End of period* .....	\$970,501,2
* Undistributed investment income--net .....	\$ 3,049,6
=====	

+ Commencement of operations.

See Notes to Financial Statements.

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The following per share data and ratios have been derived from information provided in the financial statements.

For the Six Months Ended April 30, 2004

Increase (Decrease) in Net Asset Value:

Per Share Operating Performance

Net asset value, beginning of period .....	\$ 24.
Investment income--net .....	1.
Realized and unrealized gain (loss) on investments--net ....	(. )
Dividends and distributions to Preferred Stock shareholders from:	
Investment income--net .....	(. )
Realized gain on investments--net .....	(. )
Total from investment operations .....	.
Dividends and distributions to Common Stock shareholders from:	
Investment income--net .....	(1. )
Realized gain on investments--net .....	(. )
Dividends and distributions to Common Stock shareholders ...	(1. )
Capital charge resulting from the issuance of Common Stock .	
Capital charge and underwriting costs resulting from the issuance of Preferred Stock .....	
Net asset value, end of period .....	\$ 23.
Market price per share, end of period .....	\$ 21.

Total Investment Return\*\*

Based on market price per share .....	(2. )
Based on net asset value per share .....	2. )

Ratios Based on Average Net Assets of Common Stock

Total expenses, net of waiver*** .....	1. )
Total expenses*** .....	1. )
Total investment income--net*** .....	8. )
Amount of dividends to Preferred Stock shareholders .....	. )
Investment income--net, to Common Stock shareholders .....	8. )

Ratios Based on Average Net Assets of Common & Preferred Stock\*\*\*

Total expenses, net of waiver .....	. )
-------------------------------------	-----

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Total expenses .....	=====	.
Total investment income--net .....	=====	5.

=====  
Ratios Based on Average Net Assets of Preferred Stock  
-----

Dividends to Preferred Stock shareholders .....	=====	1.
---	-------	----

PREFERRED INCOME STRATEGIES FUND, INC.                      APRIL 30, 2004                      15

[LOGO] Merrill Lynch Investment Managers

Financial Highlights (concluded)

The following per share data and ratios have been derived from information provided in the financial statements.

For the Pe  
For the  
Months E  
April 3  
2004

=====  
Supplemental Data  
-----

Net assets applicable to Common Stock, end of period (in thousands) .....	\$	970,5
Preferred Stock outstanding, end of period (in thousands) ..	\$	550,0
Portfolio turnover .....		13.

=====  
Leverage  
-----

Asset coverage per \$1,000 .....	\$	2,7
----------------------------------	----	-----

=====  
Dividends Per Share on Preferred Stock Outstanding++  
-----

Series M7--Investment income--net .....	\$	1
Series T7--Investment income--net .....	\$	1
Series W7--Investment income--net .....	\$	1
Series TH7--Investment income--net .....	\$	1
Series F7--Investment income--net .....	\$	1
Series W28--Investment income--net .....	\$	1
Series TH28--Investment income--net .....	\$	1

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- \* Annualized.
- \*\* Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges. The Fund's Investment Adviser waived a portion of its management fee. Without such waiver, the Fund's performance would have been lower.
- \*\*\* Do not reflect the effect of dividends to Preferred Stock shareholders.
- + Commencement of operations.
- ++ The Fund's Preferred Stock was issued on May 16, 2003.
- @ Aggregate total investment return.
- @@ Based on average shares outstanding.

See Notes to Financial Statements.

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### Notes to Financial Statements

#### 1. Significant Accounting Policies:

Preferred Income Strategies Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which may require the use of management accruals and estimates. Actual results may differ from these estimates. These unaudited financial statements reflect all adjustments, which are, in the opinion of management, necessary to a fair statement of the results for the interim period presented. All such adjustments are of a normal, recurring nature. The Fund's Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol PSY. The following is a summary of significant accounting policies followed by the Fund.

(a) Valuation of investments -- Equity securities that are held by the Fund that are traded on stock exchanges or the Nasdaq National Market are valued at the last sale price or official close price on the exchange, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price for long positions, and at the last available ask price for short positions. In cases where equity securities are traded on more than one exchange, the securities are valued on the exchange designated as the primary market by or under the authority of the Board of Directors of the Fund. Long positions traded in the over-the-counter ("OTC") market, Nasdaq Small Cap or Bulletin Board are valued at the last available bid price or yield equivalent obtained from one or more dealers or pricing services approved by the Board of Directors of the Fund. Short positions traded in the OTC market are valued at the last available ask price. Portfolio securities that are traded both in the OTC market and on a stock exchange are valued according to the broadest and most representative market.

Options written are valued at the last sale price in the case of exchange-traded options or, in the case of options traded in the OTC market, the last ask price. Options purchased are valued at their last sale price in the case of exchange-traded options or, in the case of options traded in the OTC market, the last bid price. Swap agreements are valued daily based upon quotations from market makers. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their last sale price as of the close of such exchanges. Obligations with remaining maturities of 60 days or less are valued at amortized cost unless the Investment Adviser believes that this method no longer produces fair valuations.

Repurchase agreements are valued at cost plus accrued interest. The Fund employs

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pricing services to provide certain securities prices for the Fund. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including valuations furnished by the pricing services retained by the Fund, which may use a matrix system for valuations. The procedures of a pricing service and its valuations are reviewed by the officers of the Fund under the general supervision of the Fund's Board of Directors. Such valuations and procedures will be reviewed periodically by the Board of Directors of the Fund.

Generally, trading in foreign securities, as well as U.S. government securities and money market instruments, is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the net asset value of the Fund's shares are determined as of such times. Foreign currency exchange rates also are generally determined prior to the close of business on the NYSE. Occasionally, events affecting the values of such securities and such exchange rates may occur between the times at which they are determined and the close of business on the NYSE that may not be reflected in the computation of the Fund's net asset value. If events (for example, a company announcement, market volatility or a natural disaster) occur during such periods that are expected to materially affect the value of such securities, those securities may be valued at their fair value as determined in good faith by the Fund's Board of Directors or by the Investment Adviser using a pricing service and/or procedures approved by the Fund's Board of Directors.

(b) Derivative financial instruments -- The Fund may engage in various portfolio investment strategies both to increase the return of the Fund and to hedge, or protect, its exposure to interest rate movements and movements in the securities markets. Losses may arise due to changes in the value of the contract or if the counterparty does not perform under the contract.

- o Options -- The Fund may write and purchase call and put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked to market to reflect the

PREFERRED INCOME STRATEGIES FUND, INC.

APRIL 30, 2004

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[LOGO] Merrill Lynch Investment Managers

Notes to Financial Statements (continued)

current market value of the option written. When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

- o Financial futures contracts -- The Fund may purchase or sell financial futures contracts and options on such futures contracts. Futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount

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of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

- o Swaps -- The Fund may enter into swap agreements, which are over-the-counter contracts in which the Fund and a counterparty agree to make periodic net payments on a specified notional amount. The net payments can be made for a set period of time or may be triggered by a predetermined credit event. The net periodic payments may be based on a fixed or variable interest rate; the change in market value of a specified security, basket of securities, or index; or the return generated by a security.

(c) Income taxes -- It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required.

(d) Security transactions and investment income -- Security transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Dividend income is recorded on the ex-dividend dates. Interest income is recognized on the accrual basis. The Fund amortizes all premiums and discounts on debt securities.

(e) Offering expenses -- Direct expenses relating to the public offering of the Fund's Common Stock were charged to capital at the time of issuance of the shares.

(f) Dividends and distributions -- Dividends from net investment income are declared and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates.

### 2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with Fund Asset Management, L.P. ("FAM"). The general partner of FAM is Princeton Services, Inc. ("PSI"), an indirect, wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML & Co."), which is the limited partner.

FAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee at an annual rate of .60% of the Fund's average weekly net assets including proceeds from the issuance of Preferred Stock, plus the proceeds of any outstanding borrowings used for leverage.

For the six months ended April 30, 2004, the Fund reimbursed FAM \$31,150 for certain accounting services.

Certain officers and/or directors of the Fund are officers and/or directors of FAM, PSI, and/or ML & Co.

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### 3. Investments:

Purchases and sales of investments, excluding short-term securities, for the six months ended April 30, 2004 were \$213,781,363 and \$248,407,970, respectively.

Net realized gains (losses) for the six months ended April 30, 2004 and net unrealized appreciation (depreciation) as of April 30, 2004 were as follows:

	Realized Gains (Losses)	Unrealized Appreciation (Depreciation)
Long-term investments .....	\$ (1,664,074)	\$ 24,808,615
Options purchased .....	(20,190,753)	(630,419)
Options written .....	563,750	2,601,094
Swaps .....	(483,750)	499,116
Financial futures contracts .....	(14,649,162)	--
Total .....	\$ (36,423,989)	\$ 27,278,406

As of April 30, 2004, net unrealized appreciation for Federal income tax purposes aggregated \$23,848,746, of which \$50,984,660 related to appreciated securities and \$27,135,914 related to depreciated securities. The aggregate cost of investments, including options at April 30, 2004 for Federal income tax purposes was \$1,481,317,160.

Transactions in options written for the six months ended April 30, 2004 were as follows:

	Number of Contracts	Premiums Received
<b>Put Options Written</b>		
Outstanding put options written, beginning of period .....	675	\$ 10,528,750
Options written .....	1,250	815,625
Options expired .....	(500)	(216,875)
Outstanding put options written, end of period .....	1,425	\$ 11,127,500

	Number of Contracts	Premiums Received
<b>Call Options Written</b>		
Outstanding call options written, beginning of period .....	--	--
Options written .....	1,250	\$ 346,875
Options expired .....	(1,250)	(346,875)
Outstanding call options written, end of period .....	--	\$ --

### 4. Stock Transactions:

The Fund is authorized to issue 200,000,000 shares of stock, including Preferred Stock, par value \$.10 per share, all of which were initially classified as Common Stock. The Board of Directors is authorized, however, to reclassify any

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unissued shares of stock without approval of holders of Common Stock.

### Common Stock

Shares issued and outstanding during the six months ended April 30, 2004 remained constant and during the period March 28, 2003 to October 31, 2003 increased by 40,550,000 from shares sold and 38,881 from reinvestments.

### Preferred Stock

Auction Market Preferred Stock are redeemable shares of Preferred Stock of the Fund, with a par value of \$.10 per share and liquidation preference of \$25,000 per share, plus accrued and unpaid dividends, that entitle their holders to receive cash dividends at an annual rate that may vary for the successive dividend periods. The yields in effect at April 30, 2004 were as follows: Series M7, 1.08%; Series T7, 1.08%; Series W7, 1.08%; Series TH7, 1.10%; Series F7, 1.09%; Series W28, 1.08% and Series TH28, 1.07%.

Shares issued and outstanding during the six months ended April 30, 2004 remained constant and during the period May 16, 2003 to October 31, 2003 increased by 22,000 from issuance of Preferred Stock.

The Fund pays commissions to certain broker-dealers at the end of each auction at an annual rate ranging from .25% to .375%, calculated on the proceeds of each auction. For the six months ended April 30, 2004, Merrill Lynch, Pierce, Fenner & Smith Incorporated, an affiliate of FAM, earned \$286,886 as commissions.

### 5. Subsequent Event:

The Fund paid an ordinary income dividend to holders of Common Stock in the amount of \$.166667 per share on May 28, 2004 to shareholders of record on May 14, 2004.

PREFERRED INCOME STRATEGIES FUND, INC.

APRIL 30, 2004

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[LOGO] Merrill Lynch Investment Managers

[www.mlim.ml.com](http://www.mlim.ml.com)

Preferred Income Strategies Fund, Inc. seeks to provide shareholders with current income. The secondary objective of the Fund is to seek to provide shareholders with capital appreciation. The Fund seeks to achieve its objectives by investing primarily in a portfolio of preferred securities, including convertible preferred securities that may be converted into common stock or other securities of the same or a different issuer.

This report, including the financial information herein, is transmitted to shareholders of Preferred Income Strategies Fund, Inc. for their information. It is not a prospectus. The Fund leverages its Common Stock to provide Common Stock shareholders with a potentially higher rate of return. Leverage creates risk for Common Stock shareholders, including the likelihood of greater volatility of net asset value and market price of Common Stock shares, and the risk that fluctuations in short-term interest rates may reduce the Common Stock's yield. Past performance results shown in this report should not be considered a representation of future performance. Statements and other information herein are as dated and are subject to change.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-MER-FUND (1-800-637-3863); (2) on [www.mutualfunds.ml.com](http://www.mutualfunds.ml.com); and (3) on the Securities and Exchange Commission's website at <http://www.sec.gov>.



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Preferred Income Strategies Fund, Inc.  
Box 9011  
Princeton, NJ  
08543-9011

#PIS -- 4/04

- Item 2 - Code of Ethics - Not Applicable to this semi-annual report
- Item 3 - Audit Committee Financial Expert - Not Applicable to this semi-annual report
- Item 4 - Principal Accountant Fees and Services - Not Applicable to this semi-annual report
- Item 5 - Audit Committee of Listed Registrants - Not Applicable to this semi-annual report
- Item 6 - Schedule of Investments - Not Applicable
- Item 7 - Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies - Not Applicable to this semi-annual report
- Item 8 - Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers - Not Applicable
- Item 9 - Submission of Matters to a Vote of Security Holders - Not Applicable
- Item 10 - Controls and Procedures
  - 10(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.
  - 10(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 half-year 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 11 - Exhibits attached hereto
  - 11(a)(1) - Code of Ethics - Not Applicable to this semi-annual report
  - 11(a)(2) - Certifications - Attached hereto
  - 11(a)(3) - Not Applicable
  - 11(b) - 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

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authorized.

Preferred Income Strategies Fund, Inc.

By: /s/ Terry K. Glenn

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

Date: June 18, 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  
Preferred Income Strategies Fund, Inc.

Date: June 18, 2004

By: /s/ Donald C. Burke

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

Date: June 18, 2004