

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

PREFERRED INCOME STRATEGIES FUND INC  
Form N-CSRS  
June 30, 2005

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: Robert C. Doll, Jr., Chief Executive  
Officer, Preferred Income Strategies Fund, Inc., 800 Scudders Mill Road,  
Plainsboro, NJ 08536. Mailing address: P.O. Box 9011, Princeton, NJ  
08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 10/31/05

Date of reporting period: 11/01/04 - 04/30/05

Item 1 - Report to Stockholders

Preferred and Corporate Income Strategies Fund, Inc.  
Preferred Income Strategies Fund, Inc.

Semi-Annual Reports  
April 30, 2005

Preferred and Corporate Income Strategies Fund, Inc.  
Preferred Income Strategies Fund, Inc.

The Benefits and Risks of Leveraging

The Funds utilize 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 each Fund on its longer-term portfolio investments. To the extent that the total assets of each Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, each 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 on any Preferred Stock, if each Fund were to issue Preferred Stock) may reduce the Common Stock's yield and negatively impact its net asset value and market

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price. If the income derived from securities purchased with assets received from leverage exceeds the cost of leverage, each 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, each 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.

Portfolio Information as of April 30, 2005

Preferred and Corporate Income Strategies Fund, Inc.'s Asset Mix	Percent of Total Investments
Capital Trusts .....	38.5%
Corporate Bonds .....	21.3
Preferred Stocks .....	16.7
Real Estate Investment Trusts .....	15.1
Trust Preferreds .....	7.5
Other* .....	0.9

\* Includes portfolio holdings in short-term investments and options.

Preferred Income Strategies Fund, Inc.'s Asset Mix	Percent of Total Investments
Capital Trusts .....	35.4%
Preferred Stocks .....	23.1
Real Estate Investment Trusts .....	16.8
Corporate Bonds .....	16.2
Trust Preferreds .....	7.2
Other* .....	1.3

\* Includes portfolio holdings in short-term investments and options.

Availability of Quarterly Schedules of Investments

The Funds file their complete schedules of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q are available on the SEC's Web site at <http://www.sec.gov>. The Funds' Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

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A Letter From the President

Dear Shareholder

Financial markets faced a number of crosscurrents over the past several months, but most major benchmarks managed to post positive returns for the annual and semi-annual reporting periods ended April 30, 2005:

Total Returns as of April 30, 2005 6-month 12-month

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U.S. equities (Standard & Poor's 500 Index)	+3.28%	+ 6.34%
Small-cap U.S. equities (Russell 2000 Index)	-0.15%	+ 4.71%
International equities (MSCI Europe Australasia Far East Index)	+8.71%	+14.95%
Fixed income (Lehman Brothers Aggregate Bond Index)	+0.98%	+ 5.26%
Tax-exempt fixed income (Lehman Brothers Municipal Bond Index)	+1.93%	+ 6.81%
High yield bonds (Credit Suisse First Boston High Yield Index)	+0.65%	+ 6.92%

After expanding at an annualized rate of 4.4% in 2004, U.S. gross domestic product growth for the first quarter of 2005 came in at an estimated 3.1% (although that figure was later revised upward to 3.5%). Nevertheless, the Federal Reserve Board continued increasing interest rates at a measured pace to combat emergent inflation. The most recent hike came on May 3, and brought the federal funds rate to 3%. Recently, signs of inflation have taken the form of rising business costs and increasing consumer prices, particularly in the areas of gasoline, healthcare, housing and education.

U.S. equities ended 2004 in a strong rally, but stumbled into negative territory in 2005. The market weakness was largely fueled by the potential for slowing economic and corporate earnings growth, renewed energy price concerns and a lack of investor conviction. On the positive side, certain sectors of the market have been performing well (particularly energy) and corporate transactions, such as mergers and acquisitions, stock buy-backs and dividend payouts, have all increased. International equities, especially in Asia, have benefited from higher economic growth rates.

In the bond market, we witnessed a yield curve flattening trend over the past several months as short-term yields increased and longer-term interest rates remained more stable or fell. At the end of April 2005, the two-year Treasury note yielded 3.66% and the 10-year Treasury note yielded 4.21%, a difference of 55 basis points (.55%). This compared to a spread of 149 basis points six months earlier and 222 basis points 12 months ago.

Looking ahead, the environment is likely to be a challenging one for investors. With this in mind, we encourage you to meet with your financial advisor to review your goals and asset allocation and to rebalance your portfolio, as necessary, to ensure it remains aligned with your objectives and risk tolerance. As always, 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/ Robert C. Doll, Jr.

Robert C. Doll, Jr.  
President and Director

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The Funds considerably outperformed their benchmark during the period, benefiting from a substantial underweight in U.S. agency securities and a relatively short duration in an environment of modestly rising interest rates.

Describe the market and economic environment during the period.

The Federal Reserve Board (the Fed) raised short-term interest rates in four increments of .25% during the six-month period. The target federal funds rate stood at 2.75% at April 30, 2005, and was raised once more to 3% shortly after period-end. As short-term interest rates rose more than long-term rates, the yield curve continued to flatten. The spread between two-year and 10-year Treasury notes was 55 basis points (.55%) at period-end, compared to 149 basis points six months earlier. The yield on the 10-year Treasury note increased from 4.05% on October 31, 2004, to 4.21% at period-end.

Record-high oil prices and strong gross domestic product (GDP) growth led to increased fears of inflation. GDP grew at an annualized rate of 3.8% in the fourth quarter of 2004 and 4.4% for 2004 as a whole, but slowed to a revised 3.5% in the first quarter of 2005. Led by the 21.1% rise in energy costs, the Consumer Price Index (CPI) climbed at a seasonally adjusted annualized rate of 4.3% during the first quarter of 2005, up a percentage point from the 3.3% increase for all of 2004. However, the annualized rise in food prices was just 1.3% during the quarter. Therefore, excluding food and energy costs, the CPI advanced at a seasonally adjusted annualized rate of 3.3% for the quarter.

Preferred and Corporate Income Strategies Fund, Inc.

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

For the six-month period ended April 30, 2005, the Common Stock of Preferred and Corporate Income Strategies Fund, Inc. had net annualized yields of 8.63% and 9.50%, based on a period-end per share net asset value of \$23.38 and a per share market price of \$21.22, respectively, and \$1.00 per share income dividends. For the same period, the total investment return on the Fund's Common Stock was +3.21%, based on a change in per share net asset value from \$23.69 to \$23.38, and assuming reinvestment of all distributions. For the same period, the Fund's benchmark, the Merrill Lynch Preferred Stock Fixed Rate Index, returned -.50%, while the broader-market Merrill Lynch U.S. Corporate Master Index and the Merrill Lynch U.S. Treasury/Agency Master Index returned +.83% and +.90%, respectively.

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 of 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.

The Fund's relative performance over the past six months benefited primarily from its significant underweight position in U.S. agency securities (Federal National Mortgage Association or "Fannie Mae" and Federal Home Loan Mortgage Corporation or "Freddie Mac"), as the prices of these issues declined amid investors' concerns about accounting irregularities and the uncertainty regarding the possibility of increased oversight of the agencies by the federal government. Additionally, the portfolio's relatively short duration versus the benchmark enhanced performance as interest rates moved slightly higher during the period. (The market values of fixed income securities with shorter durations are less sensitive to changes in interest rates.)

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What changes were made to the portfolio during the period?

We reduced the portfolio's duration -- which already was shorter than that of its benchmark -- by approximately six months, in keeping with our view that the Fed will continue to raise short-term interest rates gradually, forcing longer-term rates to rise further. Additionally, we took advantage of the weakness in U.S. agency securities by increasing our exposure and effectively reducing the Fund's underweight in that sector. We also significantly decreased our exposure to the banking sector and slightly trimmed our holdings in \$25 par retail preferred securities. We reduced our position in corporate bonds and reinvested the proceeds into preferred securities in an effort to increase the Fund's yield. These changes resulted in a slight improvement in the portfolio's average credit quality. We also reinvested our cash into floating rate preferred securities. The yields on these assets will move in concert with borrowing costs. We hedged approximately 20% of the Fund's Auction Market Preferred Stock

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("AMPS") in this manner. AMPS are adjustable rate preferred stocks for which the dividends are determined in an auction.

We used net asset value (NAV) hedges to shorten the portfolio's duration in an effort to reduce the risk of loss in value associated with rising interest rates. Among the hedges we implemented were pay-fixed interest rate swaps, in which we entered into agreements to pay a fixed rate of interest and receive variable interest payments in return. During the period, a majority of the Fund's competitors decreased their dividends because of rising short-term interest rates. The gains associated with the current hedges were invested back into the Fund, allowing the Fund to meet its monthly dividend distribution during the past six months.

Finally, in another hedging strategy, we purchased default protection on our holdings in General Motors Corporation (GM) and Ford Motor Company. The price of GM's securities declined in April after rating agencies Moody's and Standard & Poor's downgraded the company's credit rating to the lowest quality on the investment grade scale. Ford's bonds also fell sharply in April after Standard & Poor's issued a negative credit outlook for the company. Standard & Poor's subsequently cut its rating for each company's fixed income securities to below investment grade on May 5.

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

We have positioned the Fund in an effort to limit the impact on its net asset value from the downside risks associated with rising interest rates. We maintain our focus on the financial sector. Our largest absolute weightings at the end of the period were in banking (despite a reduction of our position in that sector) and insurance issues, which collectively comprised approximately 34% of the Fund's net assets. The portfolio is well diversified among issuers, and we intend to maintain the diversification of our holdings across issuers and sectors.

At April 30, 2005, 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, up marginally from the Baa2 rating at the beginning of the period.

Preferred Income Strategies Fund, Inc.

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

For the six-month period ended April 30, 2005, the Common Stock of Preferred Income Strategies Fund, Inc. had net annualized yields of 8.67% and 9.53%, based on a period-end per share net asset value of \$23.27 and a per share market price of \$21.15, respectively, and \$1.00 per share income dividends. For the same period, the total investment return on the Fund's Common Stock was +3.66%, based on a change in per share net asset value from \$23.48 to \$23.27, and assuming reinvestment of all distributions. For the same period, the Fund's benchmark, the Merrill Lynch Preferred Stock Fixed Rate Index, returned -.50%, while the broader-market Merrill Lynch U.S. Corporate Master Index and the Merrill Lynch U.S. Treasury/Agency Master Index returned +.83% and +.90%, respectively.

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 of 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.

The Fund's relative performance over the past six months benefited primarily from its significant underweight position in U.S. agency securities (Federal National Mortgage Association or "Fannie Mae" and Federal Home Loan Mortgage Corporation or "Freddie Mac"), as the prices of these issues declined amid investors' concerns about accounting irregularities and the uncertainty regarding the possibility of increased oversight of the agencies by the federal government. Additionally, the portfolio's relatively short duration versus the benchmark enhanced performance as interest rates moved slightly higher during the period. (The market values of fixed income securities with shorter durations are less sensitive to changes in interest rates.)

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A Discussion With Your Funds' Portfolio Managers (concluded)

What changes were made to the portfolio during the period?

We reduced the portfolio's duration -- which already was shorter than that of its benchmark -- by approximately six months, in keeping with our view that the Fed will continue to raise short-term interest rates gradually, forcing longer-term rates to rise further. Additionally, we took advantage of the weakness in U.S. agency securities by increasing our exposure and effectively reducing the Fund's underweight in this sector. We also reinvested our cash into floating rate preferred securities. The yields on these assets will move in concert with borrowing costs. We hedged approximately 20% of the Fund's Auction Market Preferred Stock ("AMPS") in this manner. AMPS are adjustable rate preferred stocks for which the dividends are determined in an auction. Consequently, the Fund was fully invested at the end of the period.

We used net asset value (NAV) hedges to shorten the portfolio's duration in an effort to reduce the risk of loss in value associated with rising interest rates. Among the hedges we implemented were pay-fixed interest rate swaps, in which we entered into agreements to pay a fixed rate of interest and receive variable interest payments in return. In addition to hedging the Fund's NAV, the borrowing costs of the Fund continued to be hedged. During the period, a majority of the Fund's competitors decreased their dividends because of rising

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short-term interest rates. Our hedging strategy benefited Fund performance in the prevailing environment, allowing the Fund to meet its monthly dividend distribution during the past six months. In fact, the Fund earned more income than it was required to distribute, which was placed in reserve to benefit shareholders at a future time. We believe this should enable the Fund to maintain its current dividend distribution rate in the near term.

Finally, in another hedging strategy, we purchased default protection on our holdings in General Motors Corporation and Ford Motor Company. The price of GM's securities declined in April after rating agencies Moody's and Standard & Poor's downgraded the company's credit rating to the lowest quality on the investment grade scale. Ford's bonds also fell sharply in April after Standard & Poor's issued a negative credit outlook for the company. Standard & Poor's subsequently cut its rating for each company's fixed income securities to below investment grade on May 5.

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

We have positioned the Fund in an effort to protect its net asset value from the downside risks associated with rising interest rates. We maintain our focus on the financial sector, as our largest absolute weightings at the end of the period were in banking and insurance issues, which comprised approximately 38% of the Fund's net assets. The portfolio is well diversified among issuers, and we intend to maintain the diversification of our holdings across issuers and sectors.

At April 30, 2005, 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 Baal from Moody's, unchanged from the rating at the beginning of the period.

John Burger  
Vice President and Portfolio Manager

Thomas Musmanno  
Vice President and Portfolio Manager

May 26, 2005

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Schedule of Investments  
Preferred and Corporate Income Strategies Fund, Inc. (in U.S. dollars)

Preferred Securities

Industry+	Face Amount	Capital Trusts
Commercial	\$ 2,000,000	Cullen Frost Cap Trust I, 4.46% due 3/01/2034 (a)
Banks--12.6%	1,835,000	Danske Bank A/S, 5.914% (a) (b) (c)
	8,000,000	Dresdner Funding Trust I, 8.151% due 6/30/2031 (c)
	5,000,000	First Chicago NBD Institutional Capital I, 3.76% due 2/01/2026
	400,000	Firststar Capital Trust I Series B, 8.32% due 12/15/2026
	3,000,000	Hubco Capital Trust I Series B, 8.98% due 2/01/2027
	1,500,000	Hubco Capital Trust II Series B, 7.65% due 6/15/2028 (c)

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	3,500,000	Mizuho JGB Investment LLC, 9.87% (a) (b) (c)
	2,000,000	SB Treasury Co. LLC, 9.40% (a) (b) (c)
=====		
Diversified Financial Services--1.4%	3,000,000	Farm Credit Bank of Texas Series 1, 7.561% (a) (b)
=====		
Electric Utilities--2.8%	2,000,000	Avista Capital Trust III, 6.50% due 4/01/2034 (a)
	2,500,000	SWEPCO Capital I, 5.25% due 10/01/2043 (a)
	2,000,000	Southern Co. CAP Trust I, 8.19% due 2/01/2037
=====		
Gas Utilities--4.1%	9,000,000	AGL Capital Trust I Series B, 8.17% due 6/01/2037
=====		
Insurance--27.6%	6,990,000	AON Corp., 8.205% due 1/01/2027
	8,510,000	Ace Capital Trust II, 9.70% due 4/01/2030
	9,000,000	Axa, 8.60% due 12/15/2030
	9,110,000	Farmers Exchange Capital, 7.05% due 7/15/2028 (c)
	6,000,000	Mangrove Bay Pass-Through Trust, 6.102% due 7/15/2033 (a) (c)
	10,000,000	Markel Capital Trust I Series B, 8.71% due 1/01/2046
	915,000	Oil Casualty Insurance Ltd., 8% due 9/15/2034 (c)
	2,000,000	Oil Insurance Ltd., 5.15% due 8/15/2033 (a) (c)
	5,000,000	QBE Insurance Group Ltd., 5.647% due 7/01/2023 (a) (c)
=====		
Multi-Utilities & Unregulated Power-- 0.6%	1,200,000	Dominion Capital Trust I, 7.83% due 12/01/2027
=====		
Oil & Gas--4.6%	2,000,000	KN Capital Trust III, 7.63% due 4/15/2028
	8,000,000	Pemex Project Funding Master Trust, 7.375% due 12/15/2014
=====		
Thrifts & Mortgage Finance--7.9%	1,465,000	Dime Capital Trust I Series A, 9.33% due 5/06/2027
	6,735,000	Greenpoint Capital Trust I, 9.10% due 6/01/2027
	760,000	ML Capital Trust I, 9.875% due 3/01/2027
	5,900,000	Sovereign Capital Trust, 9% due 4/01/2027
	2,000,000	Webster Capital Trust I, 9.36% due 1/29/2027 (c)
=====		
Total Investments in Capital Trusts (Cost--\$138,625,767)--61.		
=====		
	Shares Held	Preferred Stocks
=====		
Capital Markets--3.3%	24,000	Goldman Sachs Group, Inc. Series A, 3.91%
	280,000	Lehman Brothers Holdings, Inc., 6.50%
=====		
Commercial Banks-- 2.4%	104,800	Banco Santander Central Hispano SA, 6.41%
	34,687	First Republic Bank, 6.25%
	1,176	First Tennessee Bank NA, 3.90% (c)

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42,000 Provident Financial Group, Inc., 7.75%

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Schedule of Investments (continued)

Preferred and Corporate Income Strategies Fund, Inc. (in U.S. dollars)

Preferred Securities (continued)

Industry+	Shares Held	Preferred Stocks
Diversified Financial Services--1.8%	80,000	Cobank ACB, 7%
Electric Utilities--1.5%	20,000 36,000 16,100	Duquesne Light Co., 6.50% Pacific Gas & Electric Co. Series A, 6% Southern California Edison Co., 5.349%
Gas Utilities--3.6%	320,000	Southern Union Co., 7.55%
Insurance--1.3%	120,000	ACE Ltd. Series C, 7.80%
Thrifts & Mortgage Finance--7.2%	305,000 6,000	Fannie Mae, 7% Fannie Mae Series L, 5.125%
Wireless Telecommunication Services--5.5%	9,720	Centaur Funding Corp., 9.08%
Total Investments in Preferred Stocks (Cost--\$58,822,712)--26		

Real Estate Investment Trusts

Real Estate Investment Trusts--24.2%	76,000 63,800 72,800 400,000 400,000 180,000 90,000 610 425,000 192,000 44,000	AMB Property Corp. Series M, 6.75% Alexandria Real Estate Equities, Inc. Series C, 8.375% BRE Properties Series C, 6.75% CBL & Associates Properties, Inc. Series C, 7.75% CarrAmerica Realty Corp. Series E, 7.50% Developers Diversified Realty Corp., 7.375% Duke Realty Corp. Series K, 6.50% First Industrial Realty Trust, Inc., 6.236% HRPT Properties Trust Series B, 8.75% Health Care Property Investors, Inc. Series F, 7.10% Health Care REIT, Inc. Series F, 7.625%
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120,000	iStar Financial, Inc. Series I, 7.50%
	PS Business Parks, Inc.:
18,400	Series K, 7.95%
16,000	Series M, 7.20%
80,000	Public Storage, Inc. Series X, 6.45%
14,800	Regency Centers Corp., 7.25%
36,800	Vornado Realty Trust Series E, 7%

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 Total Investments in Real Estate Investment Trusts  
 (Cost--\$57,028,750)--24.2%  
 =====

	Face Amount	Trust Preferreds
Aerospace & Defense--0.9%	\$ 2,050,000	RC Trust I, 7% due 5/15/2006
Electric Utilities--1.8%	4,060,000	Comed Financing III, 6.35% due 3/15/2033
Gas Utilities--4.4%	10,000,000	Southwest Gas Capital II, 7.70% due 9/15/2043
Insurance--2.6%	4,000,000	ABN AMRO North America Capital Funding Trust II, 3.065% (a) (b)
	2,250,000	Lincoln National Capital VI Series F, 6.75% due 9/11/2052

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Schedule of Investments (continued)  
 Preferred and Corporate Income Strategies Fund, Inc. (in U.S. dollars)

Preferred Securities (concluded)

Industry+	Face Amount	Trust Preferreds
Thrifts & Mortgage Finance--2.3%	\$ 5,500,000	Countrywide Financial Corp., 1.50% due 4/01/2033
		Total Investments in Trust Preferreds (Cost--\$27,652,215)--12.2%
		Total Investments in Preferred Securities (Cost--\$282,129,444)--11.8%

-----  
 Corporate Bonds  
 =====

Automobiles--6.4%	10,000,000	DaimlerChrysler NA Holding Corp., 8.50% due 1/18/2031
	5,000,000	General Motors Corp., 7.70% due 4/15/2016

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Containers & Packaging--2.3%	5,000,000	Sealed Air Corp., 6.875% due 7/15/2033 (c)
Diversified Financial Services--3.1%	3,000,000	General Motors Acceptance Corp., 8% due 11/01/2031
	5,000,000	Sigma Finance Corp., 5.768% due 8/15/2011 (e)
Diversified Telecommunication Services--5.6%	5,000,000	France Telecom SA, 8.75% due 3/01/2031
	5,000,000	Sprint Capital Corp., 8.75% due 3/15/2032
Electric Utilities--2.4%	5,000,000	Energy East Corp., 6.75% due 9/15/2033
Foreign Government Obligations--3.0%	7,032,000	Mexico Government International Bond, 5.875% due 1/15/2014
Media--8.5%	3,000,000	Comcast Corp., 7.05% due 3/15/2033
	8,000,000	Liberty Media Corp., 8.25% due 2/01/2030
	2,000,000	TCI Communications, Inc., 8.75% due 8/01/2015
	5,000,000	Time Warner, Inc., 7.625% due 4/15/2031
Wireless Telecommunication Services--2.8%	5,000,000	AT&T Wireless Services, Inc., 8.75% due 3/01/2031
Total Investments in Corporate Bonds (Cost--\$78,976,091)--34.		
Short-Term Securities		
U.S. Government Obligations*--1.5%	3,600,000	Fannie Mae, 2.70% due 5/09/2005 (d)
Total Investments in Short-Term Securities (Cost--\$3,598,110)		
	Number of Contracts	Put Options Purchased
	200	U.S. Treasury Bond Future, expiring May 2005 at \$107, Broker Greenwich Capital Markets, Inc.
Total Investments in Put Options Purchased (Premiums Paid--\$56,998)--0.0%		
Total Investments (Cost--\$364,760,643**)--160.0%		
Liabilities in Excess of Other Assets--(3.2%)		
Preferred Stock, at Redemption Value--(56.8%)		

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Net Assets Applicable to Common Stock--100.0%

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Schedule of Investments (continued)

Preferred and Corporate Income Strategies Fund, Inc. (in U.S. dollars)

- + 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.
- \* 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.
- \*\* The cost and unrealized appreciation (depreciation) of investments as of April 30, 2005, as computed for federal income tax purposes, were as follows:

Aggregate cost, including options .....	\$366,306,164
	=====
Gross unrealized appreciation .....	\$ 20,909,245
Gross unrealized depreciation .....	(2,679,677)
	-----
Net unrealized appreciation .....	\$ 18,229,568
	=====

- (a) Floating rate note.
- (b) The security is a perpetual bond and has no definite maturity date.
- (c) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (d) All or a portion of security held as collateral in connection with open financial futures contracts.
- (e) Restricted securities as to resale, representing 2.1% of net assets, were as follows:

Issue	Acquisition Date	Cost	Value
-----			
Sigma Finance Corp., 5.768% due 8/15/2011	2/13/2004	\$ 5,000,000	\$ 5,000,000
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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) were as follows:

Affiliate	Net Activity	Interest Income
-----		
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	\$ (1,944,332)	\$ 22,487

Swaps outstanding as of April 30, 2005 were as follows:

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Bought credit default protection on General Motors Corp. and pay 4.70%  
Broker, Morgan Stanley Capital Services, Inc.  
Expires March 2010

Bought credit default protection on Ford Motor Credit Company and pay 2.73%  
Broker, Morgan Stanley Capital Services, Inc.  
Expires March 2010

Bought credit default protection on Ford Motor Credit Company and pay 5.70%  
Broker, Lehman Brothers Special Finance  
Expires June 2010

Bought credit default protection on General Motors Acceptance Corporation and pay 6.90%  
Broker, Lehman Brothers Special Finance  
Expires June 2010

Sold credit default protection on Ford Motor Credit Company and receive 5.25%  
Broker, JPMorgan Chase Bank  
Expires June 2010

Sold credit default protection on General Motors Acceptance Corporation and  
receive 6.375%  
Broker, JPMorgan Chase Bank  
Expires June 2010

Bought credit default protection on General Motors Corp. and pay 4.60%  
Broker, JPMorgan Chase Bank  
Expires June 2010

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of  
4.846% Broker, UBS Warburg  
Expires July 2010

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Schedule of Investments (concluded)  
Preferred and Corporate Income Strategies Fund, Inc. (in U.S. dollars)

Swaps outstanding as of April 30, 2005 (concluded):

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-----  
 Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 4.1275% Broker, Deutsche Bank AG London  
 Expires February 2012

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 4.14% Broker, Lehman Brothers Special Finance  
 Expires February 2012

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 4.683% Broker, Morgan Stanley Capital Services, Inc.  
 Expires January 2015

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.604% Broker, Morgan Stanley Capital Services, Inc.  
 Expires June 2015

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.051% Broker, JPMorgan Chase Bank  
 Expires June 2015

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.085% Broker, Morgan Stanley Capital Services, Inc.  
 Expires March 2020

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.26405% Broker, Morgan Stanley Capital Services, Inc.  
 Expires July 2025

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.258% Broker, Morgan Stanley Capital Services, Inc.  
 Expires September 2025

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.256% Broker, Morgan Stanley Capital Services, Inc.  
 Expires January 2035

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.225% Broker, Morgan Stanley Capital Services, Inc.  
 Expires March 2035

-----  
 Total

Financial futures contracts sold as of April 30, 2005 were as follows:

Number of Contracts	Issue	Expiration Date	Face Value	Unrealized Depreciation
198	10-Year U.S. Treasury Notes	June 2005	\$21,798,010	\$ (263,521)
200	30-Year U.S. Treasury Bonds	June 2005	\$22,416,042	(552,708)
Total				\$ (816,229)

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See Notes to Financial Statements.

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## Schedule of Investments

Preferred Income Strategies Fund, Inc.

(in U.S. dollars)

### Preferred Securities

Industry+	Face Amount	Capital Trusts
Commercial Banks--20.5%	\$12,035,000	ABN AMRO North America Holding Preferred Capital Repackaging 6.523% (a) (b) (c)
	11,000,000	Abbey National Capital Trust I, 8.963% (b) (c)
	2,000,000	Bank One Capital III, 8.75% due 9/01/2030
	1,000,000	Chase Capital I Series A, 7.67% due 12/01/2026 (a)
	16,455,000	Chase Capital II Series B, 3.71% due 2/01/2027 (b)
	7,225,000	Danske Bank A/S, 5.914% (a) (b) (c)
	34,000,000	Dresdner Funding Trust I, 8.151% due 6/30/2031 (a)
	1,600,000	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% (a) (b)
	12,275,000	Hubco Capital Trust II Series B, 7.65% due 6/15/2028 (a)
	998,000	JPM Capital Trust I, 7.54% due 1/15/2027 (a)
	2,000,000	Lloyds TSB Bank Plc, 6.90% (c)
	8,500,000	Mizuho JGB Investment LLC, 9.87% (a) (b) (c)
	18,470,000	Nationsbank Cap Trust III, 3.691% due 1/15/2027 (b)
	970,000	RBS Capital Trust I, 4.709% (b) (c)
	2,000,000	Republic New York Corp., 7.53% due 12/04/2026
	5,000,000	SB Treasury Co. LLC, 9.40% (a) (b) (c)
	4,500,000	St. George Funding Co. LLC, 8.485% (a) (c)
	10,000,000	Westpac Capital Trust III, 5.819% (a) (b) (c)
Consumer Finance--0.1%	1,000,000	MBNA Capital A, 8.278% due 12/01/2026
Diversified	15,000,000	Agfirst Farm Credit Bank, 8.393% due 12/15/2016 (b)
Financial	10,000,000	CIT Capital Trust I, 7.70% due 2/15/2027 (a)
Services--5.2%	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--2.7%	14,950,000	HL&P Capital Trust II Series B, 8.257% due 2/01/2037
	9,500,000	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--18.6%	24,175,000	AON Corp., 8.205% due 1/01/2027
	21,300,000	Ace Capital Trust II, 9.70% due 4/01/2030
	23,725,000	Axa, 8.60% due 12/15/2030
	15,000,000	Farmers Exchange Capital, 7.05% due 7/15/2028 (a)

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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 TR 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)
7,000,000	Oil Insurance Ltd., 5.15% due 8/15/2033 (a) (b)
6,325,000	Principal Life Insurance Company, 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
10,000,000	Zurich Capital Trust I, 8.376% due 6/01/2037 (a)

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Multi-Utilities &	10,000,000	Dominion Capital Trust I, 7.83% due 12/01/2027
Unregulated Power--	15,000,000	Dominion Resources Capital Trust III, 8.40% due 1/15/2031
3.2%		

---

Oil & Gas--1.9%	5,000,000	KN Capital Trust I Series B, 8.56% due 4/15/2027 (a)
	1,750,000	KN Capital Trust III, 7.63% due 4/15/2028
	9,850,000	Phillips 66 Capital Trust II, 8% due 1/15/2037 (a)

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Schedule of Investments (continued)  
 Preferred Income Strategies Fund, Inc. (in U.S. dollars)

Preferred Securities (continued)

Industry+	Face Amount	Capital Trusts
Thrifts & Mortgage		Astoria Capital Trust I:
Finance--4.1%	\$ 1,000,000	9.75% due 11/01/2029 (a)
	5,000,000	Series B, 9.75% due 11/01/2029
	5,760,000	Dime Capital Trust I Series A, 9.33% due 5/06/2027
	12,765,000	Greenpoint Capital Trust I, 9.10% due 6/01/2027
	3,005,000	ML Capital Trust I, 9.875% due 3/01/2027
	5,775,000	Webster Capital Trust I, 9.36% due 1/29/2027 (a)

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Total Investments in Capital Trusts (Cost--\$503,604,816)--56.

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	Shares Held	Preferred Stocks
Capital	96,000	Goldman Sachs Group, Inc. Series A, 3.91%
Markets--2.5%	600,000	Lehman Brothers Holdings, Inc., 6.50%
	100,000	Lehman Brothers Holdings, Inc. Series C, 5.94%

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Commercial	150	BBVA Privanza International Ltd., 7.764% (a)
Banks--8.9%	435,200	Banco Santander Central Hispano SA, 6.41%
	137,579	First Republic Bank, 6.25%
	4,650	First Tennessee Bank NA, 3.90% (a)
	166,800	Provident Financial Group, Inc., 7.75%
	800,000	Royal Bank of Scotland Group Plc Series L, 5.75%
	23,000	SG Preferred Capital II, 6.302%
Diversified	320,000	Cobank ACB, 7%
Financial		
Services--1.9%		
Electric	14,000	Alabama Power Co., 5.83%
Utilities--4.1%	8,200	Delmarva Power & Light, 4.56%
	80,000	Duquesne Light Co., 6.50%
	80,000	Interstate Power & Light Co. Series B, 8.375%
	140,000	Pacific Gas & Electric Co. Series A, 6%
	15,562	South Carolina Electric & Gas Series B, 4.60%
	63,900	Southern California Edison Co., 5.349%
	200,000	TXU Corp. Series B, 7.24%
Gas Utilities--1.8%	626,000	Southern Union Co., 7.55%
Insurance--5.3%	880,000	ACE Ltd. Series C, 7.80%
	16,340	Zurich RegCaPS Funding Trust, 6.01% (a) (b)
	9,800	Zurich RegCaPS Funding Trust, 6.58% (a) (b)
Thrifts & Mortgage	1,210,000	Fannie Mae, 7%
Finance--8.4%	264,650	Fannie Mae Series L, 5.125%
Wireless	30,423	Centaur Funding Corp., 9.08%
Telecommunication		
Services--4.3%		
Total Investments in Preferred Stocks (Cost--\$330,539,583)--3		

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Schedule of Investments (continued)

Preferred Income Strategies Fund, Inc.

(in U.S. dollars)

Preferred Securities (continued)

Industry+ Shares Held Real Estate Investment Trusts

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Real Estate		AMB Property Corp.:
Investment	117,800	Series L, 6.50%
Trusts--27.0%	124,000	Series M, 6.75%
	251,400	Alexandria Real Estate Equities, Inc. Series C, 8.375%
	290,000	BRE Properties Series C, 6.75%
	400,000	CBL & Associates Properties, Inc. Series C, 7.75%
	600,000	CarrAmerica Realty Corp. Series E, 7.50%
	2,000	Centerpoint Properties Trust, 5.377%
	200,000	Cousins Properties, Inc. Series A, 7.75%
	780,000	Developers Diversified Realty Corp., 8%
	280,000	Developers Diversified Realty Corp., 7.375%
		Duke Realty Corp.:
	100,000	Series J, 6.625%
	270,000	Series K, 6.50%
	637,000	Equity Residential Series N, 6.48%
	2,390	First Industrial Realty Trust, Inc., 6.263%
	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%
		PS Business Parks, Inc.:
	72,000	Series K, 7.95%
	64,000	Series M, 7.20%
	320,000	Public Storage, Inc. Series X, 6.45%
	607,550	Regency Centers Corp., 7.45%
	58,000	Regency Centers Corp., 7.25%
	11,857	Sovereign Real Estate Investment Corp., 12%
	145,000	Vornado Realty Trust Series E, 7%
	130,000	Wachovia Corp. Series A, 7.25%
	200,000	Weingarten Realty Investors Series D, 6.75%
-----		
		Total Investments in Real Estate Investment Trusts
		(Cost--\$248,343,725)--27.0%

	Face Amount	Trust Preferreds
Aerospace & Defense--3.0%	\$27,450,000	RC Trust I, 7% due 5/15/2006
Capital Markets--0.1%	875,000	Lehman Brothers Holdings Capital Trust III, 6.375% due 3/15/2006
Communications Equipment--0.2%	2,000,000	Corporate-Backed Trust Certificates, 8.375% due 11/15/2028
Electric Utilities--1.7%	6,750,000 3,000,000 5,000,000	Georgia Power Company, 5.90% due 4/15/2033 HECO Capital Trust III, 6.50% due 3/18/2034 Natural Rural Utilities Cooperative Finance Corporation, 6.75% due 2/15/2043
	397,425 950,000	PSEG Funding Trust II, 8.75% due 12/31/2032 Virginia Power Capital Trust II, 7.375% due 7/30/2042
Gas Utilities--0.7%	500,000 5,750,000	Dominion-CNG Capital Trust I, 7.80% due 10/31/2041 Southwest Gas Capital II, 7.70% due 9/15/2043

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Schedule of Investments (continued)  
Preferred Income Strategies Fund, Inc. (in U.S. dollars)

Preferred Securities (concluded)

Industry+	Face Amount	Trust Preferreds
Insurance--2.3%	\$16,000,000	ABN AMRO North America Capital Funding Trust II, 3.065% (a) (b)
	1,000,000	Everest Re Capital Trust, 7.85% due 11/15/2032
	5,000,000	Lincoln National Capital VI Series F, 6.75% due 9/11/2052
Thrifts & Mortgage	27,000,000	Countrywide Capital IV, 6.75% due 4/01/2033
Finance--3.5%	6,000,000	Dime Community Capital I, 7% due 4/14/2034
Total Investments in Trust Preferreds (Cost--\$107,933,215)--1		
Total Investments in Preferred Securities (Cost--\$1,190,421,339)--132.6%		
Corporate Bonds		
Automobiles--1.0%	5,000,000	DaimlerChrysler NA Holding Corp., 8.50% due 1/18/2031
	5,000,000	Ford Motor Co., 7.45% due 7/16/2031 (g)
Diversified	29,000,000	General Motors Acceptance Corp., 8% due 11/01/2031
Financial	15,000,000	Sigma Finance Corp., 5.768% due 8/15/2011 (j)
Services--4.2%		
Diversified	28,000,000	France Telecom SA, 8.75% due 3/01/2031
Telecommunication		Sprint Capital Corp.:
Services--7.7%	2,000,000	6.90% due 5/01/2019
	24,000,000	8.75% due 3/15/2032
Electric Utilities--1.1%	10,000,000	FirstEnergy Corp. Series B, 6.45% due 11/15/2011
Food Products--0.6%	4,800,000	Tyson Foods, Inc., 7% due 1/15/2028

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Media--4.2%	10,000,000	Comcast Corp., 7.05% due 3/15/2033
		Time Warner, Inc.:
	5,000,000	7.625% due 4/15/2031
	18,000,000	7.70% due 5/01/2032

Multi-Utilities & Unregulated Power-- 2.3%	16,575,000	Duke Energy Field Services LLC, 8.125% due 8/16/2030
--	------------	--

Thrifts & Mortgage Finance--0.9%	8,000,000	Roslyn Real Estate Asset Corp. Series D, 6.50% (b) (c)
-------------------------------------	-----------	--

Wireless Telecommunication Services--4.0%	28,000,000	AT&T Wireless Services, Inc., 8.75% due 3/01/2031
---	------------	---

Total Investments in Corporate Bonds (Cost--\$228,655,304)--26

Face Amount/ Beneficial Interest	Short-Term Securities
-------------------------------------	-----------------------

\$16,100,000	Fannie Mae, 2.70% due 5/09/2005 (e) (f)
\$ 4,400,000	Merrill Lynch Liquidity Series, LLC Money Market Series (h) (i)

Total Investments in Short-Term Securities (Cost--\$20,491,548)

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Schedule of Investments (continued)

Preferred Income Strategies Fund, Inc.

(in U.S. dollars)

Number of Contracts	Put Options Purchased
------------------------	-----------------------

800	U.S. Treasury Bond Future, expiring May 2005 at \$107, Broker Greenwich Capital Markets, Inc.
-----	--

Total Investments in Put Options Purchased  
(Premiums Paid--\$227,992)--0.0%

Total Investments (Cost--\$1,439,796,183\*)--160.8%

Liabilities in Excess of Other Assets--(2.6%)

Preferred Stock, at Redemption Value--(58.2%)

Net Assets Applicable to Common Stock--100.0%

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+ For Fund compliance purposes, "Industry" means any one or more of the industry sub-classifications used by one or more ely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this ort which may combine such industry sub-classifications for reporting ease.

\* The cost and unrealized appreciation (depreciation) of investments as of April 30, 2005, as computed for federal income purposes, were as follows:

Aggregate cost, including options .....	\$1,446,102,145
	=====
Gross unrealized appreciation .....	\$ 89,607,519
Gross unrealized depreciation .....	(16,810,382)
	-----
Net unrealized appreciation .....	\$ 72,797,137
	=====

- (a) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (b) Floating rate note.
- (c) The security is a perpetual bond and has no definite maturity date.
- (d) Depositary Receipts.
- (e) Certain U.S. Government Obligations are traded on a discount basis; the interest rates shown reflect the discount rates paid at the time of purchase by the Fund.
- (f) All or a portion of security held as collateral in connection with open financial futures contracts.
- (g) Security, or a portion of security, is on loan.
- (h) 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) were as follows:

Affiliate	Net Activity	Interest Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	--	\$ 91,441
Merrill Lynch Liquidity Series, LLC Money Market Series	\$ 4,400,000	\$ 1,763

- (i) Security was purchased with the cash proceeds from securities loans.
- (j) Restricted securities as to resale, representing 1.6% of net assets, were as follows:

Issue	Acquisition Date	Cost	Value
Sigma Finance Corp., 5.768% due 8/15/2011	2/13/2004	\$15,000,000	\$15,000,000

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Schedule of Investments (continued)

Preferred Income Strategies Fund, Inc.

(in U.S. dollars)

Swaps outstanding as of April 30, 2005 were as follows:

-----  
-----  
Receive a variable rate equal to 1-month USD LIBOR and pay a fixed rate of  
1.3275% Broker, JPMorgan Chase Bank  
Expires June 2005

Receive a variable rate equal to 1-month USD LIBOR and pay a fixed rate of 1.33%  
Broker, Morgan Stanley Capital Services, Inc.  
Expires June 2005

Receive a variable rate equal to 1-month USD LIBOR and pay a fixed rate of 1.32%  
Broker, UBS Warburg  
Expires June 2005

Receive a variable rate equal to 1-month USD LIBOR and pay a fixed rate of 1.31%  
Broker, UBS Warburg  
Expires June 2005

Bought credit default protection on Ford Motor Co. and pay 3.25%  
Broker, JPMorgan Chase Bank  
Expires March 2010

Bought credit default protection on General Motors Acceptance Corporation and  
pay 3.80% Broker, Morgan Stanley Capital Services, Inc.  
Expires March 2010

Bought credit default protection on Ford Motor Credit Company and pay 5.70%  
Broker, Lehman Brothers Special Finance  
Expires June 2010

Bought credit default protection on General Motors Acceptance Corporation and pay 6.90%  
Broker, Lehman Brothers Special Finance  
Expires June 2010

Sold credit default protection on Ford Motor Credit Company and receive 5.25%  
Broker, JPMorgan Chase Bank  
Expires June 2010

Sold credit default protection on General Motors Acceptance Corporation and  
receive 6.375%  
Broker, JPMorgan Chase Bank  
Expires June 2010

Bought credit default protection on General Motors Corp. and pay 4.60%  
Broker, JPMorgan Chase Bank  
Expires June 2010

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of  
4.846% Broker, UBS Warburg  
Expires July 2010

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Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 4.1275% Broker, Deutsche Bank AG London  
Expires February 2012

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 4.14% Broker, Lehman Brothers Special Finance  
Expires February 2012

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 4.683% Broker, Morgan Stanley Capital Services, Inc.  
Expires January 2015

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.604% Broker, Morgan Stanley Capital Services, Inc.  
Expires June 2015

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Schedule of Investments (concluded)

Preferred Income Strategies Fund, Inc.

(in U.S. dollars)

Swaps outstanding as of April 30, 2005 (concluded):

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Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.051% Broker, JPMorgan Chase Bank  
Expires June 2015

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.085% Broker, Morgan Stanley Capital Services, Inc.  
Expires March 2020

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.26405% Broker, Morgan Stanley Capital Services, Inc.  
Expires July 2025

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.258% Broker, Morgan Stanley Capital Services, Inc.  
Expires September 2025

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.256% Broker, Morgan Stanley Capital Services, Inc.  
Expires January 2035

Receive a variable rate equal to 3-month USD LIBOR and pay a fixed rate of 5.225% Broker, Morgan Stanley Capital Services, Inc.  
Expires March 2035

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Total

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Financial futures contracts sold as of April 30, 2005 were as follows:

Number of Contracts	Issue	Expiration Date	Face Value	Unrealized Depreciation
2,027	10-Year U.S. Treasury Notes	June 2005	\$223,154,157	\$ (2,697,984)
800	30-Year U.S. Treasury Bonds	June 2005	\$ 89,664,168	(2,210,832)
Total				\$ (4,908,816)

See Notes to Financial Statements.

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## Statements of Net Assets

As of April 30, 2005	Preferred Corporate I Strategi Fund, In
<b>Assets</b>	
Investments in unaffiliated securities, at value*+++ .....	\$ 384,532
Investments in affiliated securities, at value** .....	
Options purchased, at value*** .....	3
Interest receivable**** .....	4,545
Receivable for securities sold .....	946
Receivable for swaps .....	751
Dividends receivable .....	266
Receivable for variation margin .....	87
Receivable for securities lending .....	
Prepaid expenses and other assets .....	12
<b>Total assets .....</b>	<b>391,145</b>
<b>Liabilities</b>	
Collateral on securities loaned, at value .....	
Unrealized depreciation on swaps .....	11,522
Payable to custodian bank .....	1,407
Payable for securities purchased .....	887
Dividends payable to Common Stock shareholders .....	262
Payable to investment adviser .....	173
Payable to other affiliates .....	4
Accrued expenses and other liabilities .....	40
<b>Total liabilities .....</b>	<b>14,299</b>

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Preferred Stock

Preferred Stock, at redemption value, par value \$.10 per share+ of AMPS@ at \$25,000 per share liquidation preference	136,540
--	---------

Net Assets Applicable to Common Stock

Net assets applicable to Common Stock .....	\$ 240,305
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APRIL 30, 2005

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Statements of Net Assets (concluded)

	Preferred Corporate I Strategi Fund, In
As of April 30, 2005	

Analysis of Net Assets Applicable to Common Stock

Accumulated distributions in excess of investment income--net	\$ (552)
Accumulated realized capital losses--net .....	(10,056)
Unrealized appreciation--net .....	7,436
Total accumulated losses--net .....	(3,173)
Common Stock, par value \$.10 per share++ .....	1,027
Paid-in capital in excess of par .....	242,450
Net Assets .....	\$ 240,305
Net asset value per share of Common Stock .....	\$ 2
Market price .....	\$ 2
* Identified cost for unaffiliated securities .....	\$ 364,703
** Identified cost for affiliated securities .....	
*** Premiums paid .....	\$ 56
**** Interest from affiliates .....	\$ 9
+ Preferred Stock authorized, issued and outstanding:	
Series M7 Shares .....	2
Series T7 Shares .....	2
Series W7 Shares .....	
Series TH7 Shares .....	
Series F7 Shares .....	

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Series W28 Shares .....	-----
Series TH28 Shares .....	-----
++ Common Stock issued and outstanding .....	10,279
+++ Securities on loan .....	=====

@ Auction Market Preferred Stock.

See Notes to Financial Statements.

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Statements of Operations

For the Six Months Ended April 30, 2005	Preferred Corporate I Strategi Fund, In
---	--

Investment Income

Interest* .....	\$ 8,971
Dividends .....	3,486
Securities lending--net .....	-----
Total income .....	12,457

Expenses

Investment advisory fees .....	1,144
Commission fees .....	175
Accounting services .....	68
Transfer agent fees .....	32
Professional fees .....	30
Printing and shareholder reports .....	17
Trustees' fees and expenses .....	15
Custodian fees .....	11
Listing fees .....	10
Pricing fees .....	3
Other .....	18
Total expenses .....	1,528
Investment income--net .....	10,928

Realized & Unrealized Gain (Loss)--Net

Realized gain (loss) on:	
Investments--net .....	(2,202)
Futures contracts and swaps--net .....	734

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Total realized loss--net .....	(1,467)
-----	
Change in unrealized appreciation/depreciation on:	
Investments--net .....	207
Futures contracts and swaps--net .....	(834)
-----	
Total change in unrealized appreciation/depreciation--net ..	(626)
-----	
Total realized and unrealized loss--net .....	(2,094)
-----	
=====	
Dividends to Preferred Stock Shareholders	
-----	
Investment income--net .....	(1,741)
-----	
Net Increase in Net Assets Resulting from Operations .....	\$ 7,092
=====	
* Interest from affiliates .....	\$ 22
=====	

See Notes to Financial Statements.

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APRIL 30, 2005

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Statements of Changes in Net Assets

Preferred and Corporate Income Strategies Fund, Inc.

	For the Months En April 3 2005
Increase (Decrease) in Net Assets:	
=====	
Operations	
-----	
Investment income--net .....	\$ 10,928
Realized loss--net .....	(1,467)
Change in unrealized appreciation/depreciation--net .....	(626)
Dividends to Preferred Stock shareholders .....	(1,741)
-----	
Net increase in net assets resulting from operations .....	7,092
-----	
=====	
Dividends to Common Stock Shareholders	
-----	
Investment income--net .....	(10,279)
-----	
Net decrease in net assets resulting from dividends to Common Stock shareholders .....	(10,279)
-----	
=====	
Net Assets Applicable to Common Stock	
-----	
Total decrease in net assets applicable to Common Stock ....	(3,186)
Beginning of period .....	243,492
-----	
End of period* .....	\$ 240,305

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* Undistributed (accumulated distributions in excess of) investment income--net .....	\$ (552)
--	----------

See Notes to Financial Statements.

Statements of Changes in Net Assets Preferred Income Strategies Fund, Inc.

	For the Months En April 3 2005
Increase (Decrease) in Net Assets:	
=====	
Operations	
-----	
Investment income--net .....	\$ 41,342
Realized loss--net .....	(2,617)
Change in unrealized appreciation/depreciation--net .....	502
Dividends and distributions to Preferred Stock shareholders	(6,925)
Net increase in net assets resulting from operations .....	32,302
-----	
Dividends and Distributions to Common Stock Shareholders	
-----	
Investment income--net .....	(40,593)
Realized gain--net .....	
Net decrease in net assets resulting from dividends and distributions to Common Stock shareholders .....	(40,593)
-----	
Net Assets Applicable to Common Stock	
-----	
Total decrease in net assets applicable to Common Stock ....	(8,290)
Beginning of period .....	952,972
End of period* .....	\$ 944,681
=====	
* Undistributed (accumulated distributions in excess of) investment income--net .....	\$ (4,238)
=====	

See Notes to Financial Statements.

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Financial Highlights Preferred and Corporate Income Strategies Fund, Inc.

For the Six  
Months Ended Y

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

April 30,  
2005

=====

Per Share Operating Performance

-----

Net asset value, beginning of period .....	\$ 23.69
Investment income--net .....	1.06
Realized and unrealized gain (loss)--net ....	(.20)
Less dividends to Preferred Stock shareholders from investment income--net .....	(.17)
Total from investment operations .....	.69
Less dividends to Common Stock shareholders from investment income--net .....	(1.00)
Offering costs resulting from the issuance of Common Stock .....	--
Offering and underwriting costs resulting from the issuance of Preferred Stock .....	--
Net asset value, end of period .....	\$ 23.38
Market price per share, end of period .....	\$ 21.22

=====

Total Investment Return\*\*

-----

Based on net asset value per share .....	3.21% <sup>@</sup>
Based on market price per share .....	(2.84%) <sup>@</sup>

=====

Ratios Based on Average Net Assets of Common Stock

-----

Total expenses, net of waiver*** .....	1.25%*
Total expenses*** .....	1.25%*
Total investment income--net*** .....	8.91%*
Amount of dividends to Preferred Stock shareholders .....	1.42%*
Investment income--net, to Common Stock shareholders .....	7.49%*

=====

Ratios Based on Average Net Assets of Preferred Stock

-----

Dividends to Preferred Stock shareholders ...	2.56%*
---	--------

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Preferred and Corporate Income Strategies Fund, Inc.

	For the Six Months Ended April 30, 2005	Ye Oc
The following per share data and ratios have been derived from information provided in the financial statements.		
=====		
Supplemental Data		
-----		
Net assets applicable to Common Stock, end of period (in thousands) .....	\$240,305	
	=====	
Preferred Stock outstanding, end of period (in thousands) .....	\$136,500	
	=====	
Portfolio turnover .....	13.21%	
	=====	
-----		
Leverage		
-----		
Asset coverage per \$1,000 .....	\$ 2,760	
	=====	
-----		
Dividends Per Share on Preferred Stock Outstanding++		
-----		
Series M7--Investment income--net .....	\$ 321	
	=====	
Series T7--Investment income--net .....	\$ 317	
	=====	

- \* 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.
- \*\*\* Do not reflect the effect of dividends to Preferred Stock shareholders.
- + Commencement of operations.
- ++ The Fund's Preferred Stock was issued on August 26, 2003.
- @ Aggregate total investment return.

See Notes to Financial Statements.

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Financial Highlights Preferred Income Strategies Fund, Inc.

	For the Six Months Ended April 30, 2005	Y O
The following per share data and ratios have been derived from information provided in the financial statements.		
=====		
Per Share Operating Performance		

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Net asset value, beginning of period .....	\$ 23.48
Investment income--net .....	1.02@@
Realized and unrealized gain (loss)--net ....	(.06)
Less dividends and distributions to Preferred Stock shareholders:	
Investment income--net .....	(.17)
Realized gain--net .....	--
Total from investment operations .....	.79
Less dividends and distributions to Common Stock shareholders:	
Investment income--net .....	(1.00)
Realized gain--net .....	--
Total dividends and distributions to Common Stock shareholders .....	(1.00)
Offering costs resulting from the issuance of Common Stock .....	--
Offering and underwriting costs resulting from the issuance of Preferred Stock .....	--
Net asset value, end of period .....	\$ 23.27
Market price per share, end of period .....	\$ 21.15
=====	
Total Investment Return**	
Based on net asset value per share .....	3.66%@
Based on market price per share .....	(3.27)%@
=====	
Ratios Based on Average Net Assets of Common Stock	
Total expenses, net of waiver*** .....	1.20%*
Total expenses*** .....	1.20%*
Total investment income--net*** .....	8.61%*
Amount of dividends to Preferred Stock shareholders .....	1.44%*
Investment income--net, to Common Stock shareholders .....	7.17%*
=====	
Ratios Based on Average Net Assets of Preferred Stock	
Dividends to Preferred Stock shareholders ...	2.53%*
=====	

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Financial Highlights (concluded)

Preferred Income Strategies Fund, Inc.

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

For the Six  
Months Ended  
April 30,  
2005

Supplemental Data

Net assets applicable to Common Stock, end of period (in thousands) .....	\$944,682
Preferred Stock outstanding, end of period (in thousands) .....	\$550,000
Portfolio turnover .....	13.03%

Leverage

Asset coverage per \$1,000 .....	\$ 2,718
----------------------------------	----------

Dividends Per Share on Preferred Stock Outstanding++

Series M7--Investment income--net .....	\$ 321
Series T7--Investment income--net .....	\$ 318
Series W7--Investment income--net .....	\$ 313
Series TH7--Investment income--net .....	\$ 325
Series F7--Investment income--net .....	\$ 307
Series W28--Investment income--net .....	\$ 286
Series TH28--Investment income--net .....	\$ 337

\* 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.

\*\*\* 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 and Corporate Income Strategies Fund, Inc. and Preferred Income Strategies Fund, Inc. (the "Funds" or individually as the "Fund") are registered under the Investment Company Act of 1940, as amended, as diversified, closed-end management investment companies. The Funds' financial statements are prepared in conformity with U.S. generally accepted accounting principles, 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 present a fair statement of the results for the interim period. All such adjustments are of a normal, recurring nature. The Funds' Common Stock shares are listed on the New York Stock Exchange ("NYSE") under the symbol PSW for Preferred and Corporate Income Strategies Fund, Inc. and PSY for Preferred Income Strategies Fund, Inc. The following is a summary of significant accounting policies followed by the Funds.

(a) Valuation of investments -- Debt securities are traded primarily in the over-the-counter ("OTC") markets and are valued at the last available bid price in the OTC market or on the basis of values obtained by a pricing service. Pricing services use valuation matrixes that incorporate both dealer-supplied valuations and valuation models. The procedures of the pricing service and its valuations are reviewed by the officers of the Funds under the general direction of the Board of Directors. Such valuations and procedures will be reviewed periodically by the Board of Directors of the Funds. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their closing prices as of the close of such exchanges. Options written or purchased are valued at the last sales price in the case of exchange-traded options. In the case of options traded in the OTC market, valuation is the last asked price (options written) or the last bid price (options purchased). Swap agreements are valued by quoted fair valuations received daily by each Fund from the counterparty. Short-term investments with a remaining maturity of 60 days or less are valued at amortized cost, which approximates market value, under which method the investment is valued at cost and any premium or discount is amortized on a straight line basis to maturity. Repurchase agreements are valued at cost plus accrued interest. Investments in open-end investment companies are valued at their net asset value each business day. Securities and other 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 Funds.

Equity securities that are held by the Funds, which 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 asked 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 Funds. Long positions traded in the OTC market, Nasdaq Small Cap or Bulletin Board are valued at the last available bid price obtained from one or more dealers or pricing services approved by the Board of Directors of the Funds. Short positions traded in the OTC market are valued at the last available asked 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.

Generally, trading in foreign securities 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 Funds' shares are

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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 in each 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 Funds' Board of Directors or by the Investment Adviser using a pricing service and/or procedures approved by the Funds' Board of Directors.

(b) Derivative financial instruments -- Each Fund may engage in various portfolio investment strategies both to increase the return of each 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 -- Each 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

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### Notes to Financial Statements (continued)

is subsequently marked-to-market to reflect the 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 -- Each 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 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 -- Each 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 pre-determined 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

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security. Agreements are valued daily based upon quotations from market makers and changes in value are recorded as unrealized appreciation (depreciation). These periodic payments received or made by the Fund are recorded in the accompanying Statement of Operations as realized gains or losses, respectively. Gains or losses are also realized upon termination of the swap agreements. Swaps are marked-to-market daily based on dealer-supplied valuations and changes in value are recorded as unrealized appreciation (depreciation). Risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms and the possible lack of liquidity with respect to the swap agreements.

(c) Income taxes -- It is each 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 Funds amortize all premiums and discounts on debt securities.

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

(f) Securities lending -- Each Fund may lend securities to financial institutions that provide cash or securities issued or guaranteed by the U.S. government as collateral, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. Where the Fund receives securities as collateral for the loaned securities, it collects a fee from the borrower. The Fund typically receives the income on the loaned securities but does not receive the income on the collateral. Where the Fund receives cash collateral, it may invest such collateral and retain the amount earned on such investment, net of any amount rebated to the borrower. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within five business days. The Fund may pay reasonable finder's, lending agent, administrative and custodial fees in connection with its loans. In the event that the borrower defaults on its obligation to return borrowed securities because of insolvency or for any other reason, the Fund could experience delays and costs in gaining access to the collateral. The Fund also could suffer a loss where the value of the collateral falls below the market value of the borrowed securities, in the event of borrower

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Notes to Financial Statements (continued)

default or in the event of losses on investments made with cash collateral.

(g) Custodian bank -- Each Fund recorded an amount payable to the custodian bank resulting from a timing difference of security transaction settlements.

2. Investment Advisory Agreement and Transactions with Affiliates:

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Each 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 each Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, each Fund pays a monthly fee at an annual rate of .60% of the Fund's average daily (for Preferred and Corporate Income Strategies Fund, Inc.) and weekly (for Preferred Income Strategies Fund, Inc.) net assets, (including proceeds from the issuance of Preferred Stocks) plus the proceeds of any outstanding borrowings used for leverage.

Each Fund has received an exemptive order from the Securities and Exchange Commission permitting it to lend portfolio securities to Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), an affiliate of FAM, or its affiliates. Pursuant to that order, the Fund also has retained Merrill Lynch Investment Managers, LLC ("MLIM, LLC"), an affiliate of FAM, as the securities lending agent for a fee based on a share of the returns on investment of cash collateral. MLIM, LLC may, on behalf of the Fund, invest cash collateral received by the Fund for such loans, among other things, in a private investment company managed by MLIM, LLC or in registered money market funds advised by MLIM or its affiliates. For the six months ended April 30, 2005, MLIM, LLC received \$815 in securities lending agent fees for the Preferred Income Strategies Fund, Inc.

For the six months ended April 30, 2005, each Fund reimbursed FAM \$4,078 in Preferred and Corporate Income Strategies Fund, Inc. and \$16,360 in Preferred Income Strategies Fund, Inc., for certain accounting services.

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

### 3. Investments:

Purchases and sales of investments, excluding short-term securities, for the six months ended April 30, 2005 were as follows:

	Preferred and Corporate Income Strategies Fund, Inc.	Preferred Income Strategies Fund, Inc.
Total Purchases .....	\$55,385,453	\$203,920,573
Total Sales .....	\$50,530,212	\$195,923,109

### 4. Stock Transactions:

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

#### Preferred Stock

Auction Market Preferred Stock are redeemable shares of Preferred Stock of the Funds, 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

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receive cash dividends at an annual rate that may vary for the successive dividend periods. The yields in effect at April 30, 2005 were as follows:

	Preferred and Corporate Income Strategies Fund, Inc.	Preferred Income Strategies Fund, Inc.
Series M7 .....	3.08%	3.10%
Series T7 .....	3.10%	3.10%
Series W7 .....	--	3.08%
Series TH7 .....	--	3.15%
Series F7 .....	--	3.10%
Series W28 .....	--	3.19%
Series TH28 .....	--	3.30%

Each 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, 2005, MLPF&S earned commissions as follows:

Fund	Commissions
Preferred and Corporate Income Strategies Fund, Inc. ....	\$135,383
Preferred Income Strategies Fund, Inc. ....	\$259,617

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APRIL 30, 2005

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Notes to Financial Statements (concluded)

### 5. Capital Loss Carryforward:

Preferred and Corporate Income Strategies Fund, Inc.

On October 31, 2004, the Fund had a net capital loss carryforward of \$11,519,762, of which \$1,276,621 expires in 2011 and \$10,243,141 expires in 2012. This amount will be available to offset like amounts of any future taxable gains.

Preferred Income Strategies Fund, Inc.

On October 31, 2004, the Fund had a net capital loss carryforward of \$62,733,648, all of which expires in 2012. This amount will be available to offset like amounts of any future taxable gains.

### 6. Subsequent Event:

Each Fund paid an ordinary income dividend to holders of Common Stock on May 31, 2005 to shareholders of record on May 13, 2005. The amount of the ordinary income dividend was as follows:

Fund	Per Share Amount
Preferred and Corporate Income Strategies Fund, Inc. ....	\$.166667

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Preferred Income Strategies Fund, Inc. .... \$ .166667  
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Officers and Directors

Robert C. Doll, Jr., President and Director  
David O. Beim, Director  
James T. Flynn, Director  
W. Carl Kester, Director  
Karen P. Robards, Director  
Donald C. Burke, Vice President and Treasurer  
John Burger, Vice President  
Thomas Musmanno, Vice President  
Jeffrey Hiller, Chief Compliance Officer  
Alice A. Pellegrino, Secretary

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

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Effective January 1, 2005, Terry K. Glenn retired as President and Director of Preferred and Corporate Income Strategies Fund, Inc. and Preferred Income Strategies Fund, Inc. The Funds' Board of Directors wishes Mr. Glenn well in his retirement.

Effective January 1, 2005, Robert C. Doll, Jr. became President and Director of the Funds.  
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=====  
Investment Objectives  
-----

NYSE Symbol Preferred and Corporate Income Strategies Fund, Inc. seeks to  
PSY provide shareholders with high 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  
and debt securities, including convertible securities that may  
be converted into common stock or other securities of the same  
or a different issuer.

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NYSE Symbol Preferred Income Strategies Fund, Inc. seeks to provide  
PSY shareholders with high 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.

=====  
Electronic Delivery  
-----

The Funds offer electronic delivery of communications to their 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 Web site at <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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[LOGO] Merrill Lynch Investment Managers

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

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Mercury Advisors

A Division of Merrill Lynch Investment Managers

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

These reports, including the financial information herein, are transmitted to shareholders of Preferred and Corporate Income Strategies Fund, Inc. and Preferred Income Strategies Fund, Inc. for their information. This is not a prospectus. The Funds leverage their Common Stock to provide Common Stock shareholders with potentially higher rates 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 these reports 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 Funds use 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) at [www.mutualfunds.ml.com](http://www.mutualfunds.ml.com); and (3) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>. Information about how the Funds voted proxies relating to securities held in the Funds' portfolios during the most recent 12-month period ended June 30 is available (1) at [www.mutualfunds.ml.com](http://www.mutualfunds.ml.com) and (2) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

Preferred and Corporate Income Strategies Fund, Inc.  
Preferred Income Strategies Fund, Inc.

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Box 9011  
Princeton, NJ  
08543-9011

#PCPIS -- 4/05

- 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 - Portfolio Managers of Closed-End Management Investment Companies - Not Applicable to this semi-annual report
- Item 9 - Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers - Not Applicable
- Item 10 - Submission of Matters to a Vote of Security Holders - Not Applicable
- Item 11 - Controls and Procedures
  - 11(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.
  - 11(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 12 - Exhibits attached hereto
  - 12(a) (1) - Code of Ethics - Not Applicable to this semi-annual report
  - 12(a) (2) - Certifications - Attached hereto
  - 12(a) (3) - Not Applicable
  - 12(b) - Certifications - Attached hereto

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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Preferred Income Strategies Fund, Inc.

By: /s/ Robert C. Doll, Jr.  
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Robert C. Doll, Jr.,  
Chief Executive Officer of  
Preferred Income Strategies Fund, Inc.

Date: June 20, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Robert C. Doll, Jr.  
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Robert C. Doll, Jr.,  
Chief Executive Officer of  
Preferred Income Strategies Fund, Inc.

Date: June 20, 2005

By: /s/ Donald C. Burke  
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Donald C. Burke,  
Chief Financial Officer of  
Preferred Income Strategies Fund, Inc.

Date: June 20, 2005