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PREFERRED INCOME STRATEGIES FUND INC  
Form N-CSRS  
July 05, 2006

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: 10/31/06

Date of reporting period: 11/01/05 - 04/30/06

Item 1 - Report to Stockholders

Semi-Annual Reports  
April 30, 2006

Preferred and Corporate Income  
Strategies Fund, Inc.

Preferred Income Strategies Fund, Inc.

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

Announcement to Shareholders

On February 15, 2006, BlackRock, Inc. ("BlackRock") and Merrill Lynch & Co., Inc. ("Merrill Lynch") entered into an agreement to contribute Merrill Lynch's investment management business, Merrill Lynch Investment Managers, L.P. and certain affiliates (including Fund Asset Management, L.P. and Merrill Lynch Investment Managers International Limited), to BlackRock to create a new independent company that will be one of the world's largest asset management firms with over \$1 trillion in assets under management (based on combined assets under management as of March 31, 2006). The transaction is expected to close in the third quarter of 2006, at which time the new company will operate under the BlackRock name. The Funds' Board of Directors has approved a new investment advisory agreement with BlackRock Advisors, Inc. or its successor ("BlackRock Advisors") on substantially the same terms and for the same advisory fee as the

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current investment advisory agreement with the Investment Adviser. If the new agreement is approved by the Funds' shareholders, BlackRock Advisors is expected to become the Funds' investment adviser upon the closing of the transaction between Merrill Lynch and BlackRock.

### The Benefits and Risks of Leveraging

The Funds utilize leverage through the issuance 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 on the Preferred Stock, 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 will be 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 the dividend rates on any 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, 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, 2006

Preferred and Corporate Income Strategies Fund, Inc.'s Asset Mix	Percent of Total Investments
Capital Trusts .....	40.9%
Preferred Stocks .....	18.1
Corporate Bonds .....	18.1
Real Estate Investment Trusts .....	13.3
Trust Preferred .....	6.8
Foreign Government Obligations .....	2.0
Other* .....	0.8

Preferred Income Strategies Fund, Inc.'s Asset Mix	Percent of Total Investments
Capital Trusts .....	36.0%
Preferred Stocks .....	22.8
Corporate Bonds .....	17.1
Real Estate Investment Trusts .....	13.6
Trust Preferred .....	7.9
Other* .....	2.6

\* Includes portfolio holdings in short-term investments.

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Dear Shareholder

You may be aware that changes are on the horizon at Merrill Lynch Investment Managers ("MLIM"). On February 15, 2006, Merrill Lynch announced plans to combine the firm's investment advisory business, including MLIM, with another highly regarded investment manager -- BlackRock, Inc. ("BlackRock").

We believe this merger of asset management strength will benefit our investors. MLIM is a leading investment management organization with over \$576 billion in assets under management globally and 2,757 employees in 17 countries. It offers over 100 investment strategies in vehicles ranging from mutual funds to institutional portfolios. BlackRock is one of the largest publicly traded investment management firms in the United States with \$463.1 billion in assets under management and 1,839 employees. It manages assets on behalf of institutional and individual investors worldwide through a variety of equity, fixed income, liquidity and alternative investment products.

At the completion of the transaction, which is expected in the third quarter of this year, the resultant firm will be a top-10 investment manager worldwide with over \$1 trillion in assets under management.\* The combined company will provide a wider selection of high-quality investment solutions across a range of asset classes and investment styles. MLIM and BlackRock possess complementary capabilities that together create a well-rounded organization uniting some of the finest money managers in the industry. At the same time, the firms share similar values and beliefs -- they are focused on delivering excellence on behalf of clients, and both make investment performance their single most important mission. In short, the merger only reinforces our commitment to shareholders.

Most of MLIM's investment products -- including mutual funds, separately managed accounts, annuities and variable insurance funds -- eventually will carry the "BlackRock" name. As a shareholder in one or more MLIM-advised mutual funds, you will receive a proxy package in the coming weeks in connection with this transaction. After you receive this information, should you have any questions or concerns, do not hesitate to contact your financial advisor.

As always, we thank you for entrusting us with your investment assets, and we look forward to continuing to serve your investment needs with even greater strength and scale as the new BlackRock.

Sincerely,

/s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.  
President and Chief Investment Officer  
Merrill Lynch Investment Managers

\* \$1.039 trillion in assets under management as of March 31, 2006.

Data, including assets under management, are as of March 31, 2006.

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### A Discussion With Your Funds' Portfolio Managers

The Funds outperformed their benchmark for the six-month period, benefiting from their relatively long spread durations and our use of hedging strategies, which we employed in an effort to reduce the negative effects of

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rising interest rates.

Describe the market and economic environment during the period.

The yield curve did not change significantly during the past six months, remaining relatively flat. The spread between two-year and 10-year U.S. Treasury notes was 20 basis points (.20%) at April 30, 2006, just three basis points more than six months ago. The yield on the two-year note rose from 4.40% at October 31, 2005, to 4.87% at period-end, while the yield on the 10-year note rose from 4.57% to 5.07% over the same period. The Federal Reserve Board (the Fed) increased short-term interest rates in four increments of .25% during the period, pushing the target federal funds rate to 4.75% at April 30, 2006. Shortly after the end of the period, the Fed increased short-term interest rates by another .25%, bringing the target rate to 5%.

Record-high oil prices and strong gross domestic product (GDP) growth continued to stoke fears of increased inflation. GDP expanded at an estimated annualized rate of 4.8% in the first quarter of 2006, up significantly from the 1.7% and 3.5% annualized growth rates in the fourth quarter and full year 2005, respectively. Although core inflation remained moderate during the period, energy prices were volatile, falling sharply in the fourth quarter of 2005, then climbing significantly during the first quarter of 2006.

How did the Funds perform during the period?

For the six-month period ended April 30, 2006, the Common Stock of Merrill Lynch Preferred Income Strategies Fund, Inc. had net annualized yields of 7.62% and 8.68%, based on a period-end per share net asset value of \$21.67 and a per share market price of \$19.02, respectively, and \$.819 per share income dividends. For the same period, the total investment return on the Fund's Common Stock was +1.57%, based on a change in per share net asset value from \$22.26 to \$21.67, and assuming reinvestment of all distributions.

The Common Stock of Merrill Lynch Preferred and Corporate Income Strategies Fund, Inc. had net annualized yields of 7.87% and 8.64% during the past six months, based on a period-end per share net asset value of \$21.87 and a per share market price of \$19.91, respectively, and \$.853 per share income dividends. The total investment return on the Fund's Common Stock was +2.11% for the six-month period, based on a change in per share net asset value from \$22.36 to \$21.87, and assuming reinvestment of all distributions.

For the same period, the Funds' benchmark, the Merrill Lynch Preferred Stock Fixed Rate Index, returned +.86%, while the broader-market Merrill Lynch U.S. Corporate Master Index and the Merrill Lynch U.S. Treasury/Agency Master Index returned +.04% and +.15%, respectively.

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

What factors most influenced the Funds' performance?

The credit markets were strong during the period as yield spreads tightened versus Treasury issues. In addition, long-duration corporate bonds outperformed their short-duration counterparts. Therefore, the Funds' overweight positions in longer-duration credits helped to drive their outperformance of the benchmark.

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The Funds' long spread durations relative to the benchmark also had a positive effect on performance. Spread duration is a measurement of the effect of a 100 basis point increase or reduction in the yield spread of a fixed income security versus U.S. Treasury issues of comparable maturities.

In addition, the Funds' performance for the period benefited considerably from our use of net asset value hedges to shorten the portfolios' durations in an effort to reduce the risk of loss in value associated with rising interest rates. We maintained our view that the Fed would continue to raise short-term interest rates gradually, forcing long-term rates higher.

The portfolios' underweight positions in short-term callable trust-preferred securities (TruPS), which performed well during the period, detracted somewhat from performance. TruPS are fixed income securities that have characteristics

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of both stocks and bonds. They have early redemption features, make quarterly fixed interest payments and mature at face value. A company creates TruPS by establishing a trust and issuing debt to the new entity. The company may realize significant federal income tax benefits because the interest paid to the trust is tax deductible.

What changes were made to the portfolios during the period?

We reduced the portfolios' durations -- which already were shorter than that of their benchmark -- by approximately five years. However, we maintained the Funds' relatively long spread durations. We also continued to trim the Funds' exposure to the banking sector as the yield curve remained relatively flat. Banks earn profits on the spreads between the interest rates they pay to depositors and the rates they charge for loans. Therefore, a flat or narrow yield curve squeezes their profit margins.

In addition, we trimmed our holdings in dividends received deduction (DRD) preferred securities, which pay dividends that qualify for the lower maximum federal income tax rate of 15%. (Dividends earned from other types of preferred securities are taxed at an investor's marginal income tax rate, which can be as high as 33%.) Under the DRD provision of the federal tax code, eligible U.S. corporations that receive qualified dividends from other U.S. corporations may deduct 70% of the total U.S. corporate dividends received from their federal taxable income. DRDs offer lower nominal yields than taxable securities of comparable maturities because of their tax advantages. Consequently, we reduced our exposure to these issues in an effort to increase the gross yields of the Funds.

How would you characterize the Funds' positioning at the close of the period?

We continued to position the Funds in an effort to mitigate the decline in their net asset values resulting from the negative effects of rising interest rates. The preferred stock market has significant exposure to securities issued by financial companies. Therefore, we retained the Funds' sizeable allocations to the financial sector, although the portfolios are underweight relative to the benchmark in these securities. Our largest absolute weightings at the end of the period were in banking and insurance issues, which comprised approximately 47% and 39% of the net assets of Preferred Income Strategies Fund and Preferred and Corporate Income Strategies Fund, respectively. The portfolios are well diversified among issuers, and we intend to maintain this diversification.

At April 30, 2006, Preferred Income Strategies Fund and Preferred and Corporate

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Income Strategies Fund each had a leveraged position of approximately 37%. (For a more complete explanation of the benefits and risks of leveraging, see page 2 of this report to shareholders.) Also at period-end, each Fund carried an average credit rating of Baal from Moody's Investors Service, unchanged from the rating at October 31, 2005.

John Burger  
Vice President and Portfolio Manager

Thomas Musmanno  
Vice President and Portfolio Manager

May 10, 2006

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### Schedule of Investments

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

#### Preferred Securities

Face Amount	Capital Trusts	Value
<b>Commercial Banks--13.1%</b>		
\$ 2,000,000	Cullen/Frost Capital Trust I, 6.37% due 3/01/2034 (a)	\$ 2,036,080
8,000,000	Dresdner Funding Trust I, 8.151% due 6/30/2031 (c)	9,132,528
5,000,000	First Chicago NBD Institutional Capital I, 5.699% due 2/01/2027 (a)	4,754,150
910,000	First Empire Capital Trust II, 8.277% due 6/01/2027	967,238
450,000	First Security Capital I, 8.41% due 12/15/2026	474,995
1,400,000	Firststar Capital Trust I Series B, 8.32% due 12/15/2026	1,479,667
3,000,000	Hubco Capital Trust I Series B, 8.98% due 2/01/2027	3,194,736
1,500,000	Hubco Capital Trust II Series B, 7.65% due 6/15/2028	1,575,000
3,500,000	Mizuho JGB Investment LLC, 9.87% (a) (b) (c)	3,786,143
2,000,000	SB Treasury Co. LLC, 9.40% (a) (b) (c)	2,144,712
		29,545,249
<b>Consumer Finance--0.4%</b>		
910,000	MBNA Capital A, 8.278% due 12/01/2026	958,552
<b>Diversified Financial Services--3.0%</b>		
3,000,000	Farm Credit Bank of Texas Series 1, 7.561% (a) (b)	3,146,340
3,335,000	Sun Life Canada US Capital Trust, 8.526% (b) (c)	3,550,741
		6,697,081
<b>Electric Utilities--1.6%</b>		
4,060,000	Comed Financing III, 6.35% due 3/15/2033	3,601,675
<b>Gas Utilities--4.2%</b>		
9,000,000	AGL Capital Trust I Series B, 8.17% due 6/01/2037	9,536,949
<b>Insurance--27.6%</b>		
6,990,000	AON Corp., 8.205% due 1/01/2027	7,734,295

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9,000,000	AXA, 8.60% due 12/15/2030	11,117,016
8,510,000	Ace Capital Trust II, 9.70% due 4/01/2030	10,948,694
9,110,000	Farmers Exchange Capital, 7.05% due 7/15/2028 (c)	8,849,919
6,000,000	Mangrove Bay Pass-Through Trust, 6.102% due 7/15/2033 (a) (c)	5,754,060
10,000,000	Markel Capital Trust I Series B, 8.71% due 1/01/2046	10,407,230
915,000	Oil Casualty Insurance Ltd., 8% due 9/15/2034 (c)	868,437
5,000,000	QBE Insurance Group Ltd., 5.647% due 7/01/2023 (a) (c)	4,772,395
1,400,000	Zurich Capital Trust I, 8.376% due 6/01/2037 (c)	1,494,430
		61,946,476
=====		
Multi-Utilities--0.6%		
1,200,000	Dominion Resources Capital Trust I, 7.83% due 12/01/2027	1,268,796
=====		
Oil, Gas & Consumable Fuels--5.6%		
2,000,000	KN Capital Trust III, 7.63% due 4/15/2028	2,079,380
8,000,000	Pemex Project Funding Master Trust, 7.375% due 12/15/2014	8,480,000
2,000,000	Phillips 66 Capital Trust II, 8% due 1/15/2037	2,106,024
		12,665,404
=====		
Thrifts & Mortgage Finance--8.5%		
1,465,000	Dime Capital Trust I Series A, 9.33% due 5/06/2027	1,579,750
6,735,000	Greenpoint Capital Trust I, 9.10% due 6/01/2027	7,246,766
760,000	ML Capital Trust I, 9.875% due 3/01/2027	810,719
5,900,000	Sovereign Capital Trust, 9% due 4/01/2027	6,283,889
3,000,000	Webster Capital Trust I, 9.36% due 1/29/2027 (c)	3,198,000
		19,119,124
-----		
	Total Capital Trusts (Cost--\$143,948,738)--64.6%	145,339,306
=====		
Shares		
Held Preferred Stocks		
=====		
Capital Markets--3.4%		
24,000	Goldman Sachs Group, Inc. Series A, 3.91% (a)	614,160
280,000	Lehman Brothers Holdings, Inc., 6.50%	7,112,000
		7,726,160
=====		
Commercial Banks--1.2%		
1,176	First Tennessee Bank NA, 3.90% (a) (c)	1,194,375
42,000	Provident Financial Group, Inc., 7.75%	1,089,375
12,000	Sovereign Bancorp, Inc. Series C, 7.30% (d)	300,000
		2,583,750
=====		
Diversified Financial Services--3.2%		
135,000	CIT Group, Inc. Series A, 6.35%	3,389,850
80,000	CoBank ACB, 7% (c)	3,718,480
		7,108,330
=====		
Electric Utilities--2.6%		
20,000	Duquesne Light Co., 6.50%	1,023,000
28,800	Entergy Arkansas, Inc., 6.45%	722,701
22,650	Entergy Louisiana LLC, 6.95% (c)	2,290,481
76,000	PPL Electric Utilities Corp., 6.25%	1,900,000

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		5,936,182
=====		
Gas Utilities--3.1%		
270,000	Southern Union Co., 7.55%	6,966,000
=====		
Insurance--5.7%		
120,000	ACE Ltd. Series C, 7.80%	3,102,000
35,000	Axis Capital Holdings Ltd. Series A, 7.25%	863,450
35,200	Endurance Specialty Holdings Ltd., 7.75%	830,720
318,000	MetLife, Inc. Series B, 6.50%	7,981,800
		-----
		12,777,970
=====		
Real Estate--0.5%		
40,000	Public Storage, Inc. Series I, 7.25% (d)	1,003,752
=====		
Thrifts & Mortgage Finance--7.5%		
305,000	Fannie Mae, 7% (a)	16,641,563
6,000	Fannie Mae Series L, 5.125%	251,700
		-----
		16,893,263
=====		
Wireless Telecommunication Services--1.4%		
2,720	Centaur Funding Corp., 9.08% (c)	3,226,600
-----		
	Total Preferred Stocks (Cost--\$62,745,831)--28.6%	64,222,007
=====		

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Schedule of Investments (continued)

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

Preferred Securities (concluded)

Shares			Value
Held	Real Estate Investment Trusts		
=====			
Real Estate--21.1%			
63,800	Alexandria Real Estate Equities, Inc. Series C, 8.375%	\$	1,652,420
400,000	CBL & Associates Properties, Inc. Series C, 7.75%		10,144,000
400,000	CarrAmerica Realty Corp. Series E, 7.50%		10,120,000
610	First Industrial Realty Trust, Inc., 6.236% (a)		609,619
	HRPT Properties Trust:		
425,000	Series B, 8.75%		10,867,250
125,000	Series C, 7.125%		3,054,687
192,000	Health Care Property Investors, Inc. Series F, 7.10%		4,790,400
44,000	Health Care REIT, Inc. Series F, 7.625%		1,116,500
120,000	iStar Financial, Inc. Series I, 7.50%		2,976,000
	PS Business Parks, Inc.:		
18,400	Series K, 7.95%		467,544
16,000	Series M, 7.20%		387,520
14,800	Regency Centers Corp., 7.25%		370,925
36,800	Vornado Realty Trust Series E, 7%		902,752



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	Total Real Estate Investment Trusts (Cost--\$47,764,750)--21.1%	47,459,617
=====		
	Face	
	Amount Trust Preferred	
=====		
Aerospace & Defense--0.9%		
\$ 2,050,000	RC Trust I, 7% due 5/15/2006	2,051,283
=====		
Gas Utilities--4.7%		
10,000,000	Southwest Gas Capital II, 7.70% due 9/15/2043	10,505,905
=====		
Insurance--2.8%		
4,000,000	ABN AMRO North America Capital Funding Trust II, 4.965%	
	(a) (b) (c)	4,053,660
2,250,000	Lincoln National Capital VI Series F, 6.75% due 9/11/2052	2,205,622
		-----
		6,259,282
=====		
Thrifts & Mortgage Finance--2.3%		
5,500,000	Countrywide Financial Corp., 1.50% due 4/01/2033	5,260,540
-----		
Total Trust Preferred (Cost--\$23,589,404)--10.7%		24,077,010
=====		
Total Preferred Securities (Cost--\$278,048,723)--125.0%		281,097,940
=====		
Corporate Bonds		
=====		
Automobiles--4.6%		
9,000,000	DaimlerChrysler NA Holding Corp., 8.50% due 1/18/2031	10,433,079
=====		
Commercial Banks--0.6%		
1,200,000	Royal Bank of Scotland Group Plc, 9.118% (b)	1,337,708
=====		
Containers & Packaging--2.2%		
5,000,000	Sealed Air Corp., 6.875% due 7/15/2033 (c)	4,911,820
=====		
Diversified Financial Services--3.0%		
2,000,000	Ford Motor Credit Co., 7% due 10/01/2013	1,759,756
5,000,000	Sigma Finance Corp., 7.249% due 8/15/2011 (e)	5,000,000
		-----
		6,759,756
=====		
Diversified Telecommunication Services--2.2%		
4,000,000	France Telecom SA, 8.50% due 3/01/2031	4,929,776
=====		
Electric Utilities--2.2%		
5,000,000	Energy East Corp., 6.75% due 9/15/2033	5,021,240
=====		
Media--8.2%		
3,000,000	Comcast Corp., 7.05% due 3/15/2033	3,067,311
8,000,000	Liberty Media Corp., 8.25% due 2/01/2030	7,666,224
2,000,000	TCI Communications, Inc., 8.75% due 8/01/2015	2,321,526
5,000,000	Time Warner, Inc., 7.625% due 4/15/2031	5,412,660
		-----
		18,467,721

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Wireless Telecommunication Services--5.6%		
5,000,000	AT&T Wireless Services, Inc., 8.75% due 3/01/2031	6,285,010
5,000,000	Sprint Capital Corp., 8.75% due 3/15/2032	6,203,935
		-----
		12,488,945
-----		
	Total Corporate Bonds (Cost--\$64,718,596)--28.6%	64,350,045
=====		
Foreign Government Obligations		
=====		
7,032,000	Mexico Government International Bond, 5.875% due 1/15/2014	6,954,648
-----		
	Total Foreign Government Obligations (Cost--\$6,961,680)--3.1%	6,954,648
=====		
Beneficial		
Interest Short-Term Securities		
=====		
\$ 3,035,755	Merrill Lynch Liquidity Series, LLC Cash Sweep Series I, 4.75% (f) (g)	3,035,755
-----		
	Total Short-Term Securities (Cost--\$3,035,755)--1.4%	3,035,755
=====		
	Total Investments (Cost--\$352,764,754*)--158.1%	355,438,388
Other Assets Less Liabilities--2.7%		
		6,005,708
Preferred Stock, at Redemption Value--(60.8%)		
		(136,595,737)
-----		
	Net Assets Applicable to Common Stock--100.0%	\$ 224,848,359
=====		

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Schedule of Investments (concluded)

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

\* The cost and unrealized appreciation (depreciation) of investments as of April 30, 2006, as computed for federal income tax purposes, were as follows:

Aggregate cost .....	\$ 351,585,085
	=====
Gross unrealized appreciation .....	\$ 9,088,780
Gross unrealized depreciation .....	(5,235,477)
	-----
Net unrealized appreciation .....	\$ 3,853,303
	=====

- (a) Floating rate security.
- (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.

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- (d) Depository receipts.  
 (e) Restricted security as to resale, representing approximately 2.2% of net assets, was as follows:

Issue	Acquisition Date	Cost	Value
Sigma Finance Corp., 7.249% due 8/15/2011	2/13/2004	\$5,000,000	\$5,000,000

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

Affiliate	Net Activity	Interest Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	\$3,035,755	\$29,389

- (g) Represents the current yield as of 4/30/2006.  
 o For Fund compliance purposes, the Fund's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease. Industries are shown as a percent of net assets.  
 o Financial futures contracts sold as of April 30, 2006 were as follows:

Number of Contracts	Issue	Expiration Date	Face Value	Unrealized Appreciation
813	10-Year U.S. Treasury Notes	June 2006	\$87,504,076	\$1,669,060

- o Swaps outstanding as of April 30, 2006 were as follows:

	Notional Amount	Unrealized Appreciation
Sold credit default protection on a basket of preferred securities and receive 2.03%		
Broker, Lehman Brothers Special Finance Expires September 2007	\$ 9,000,000	\$ 118,557
Pay a fixed rate of 5.2687% and receive a floating rate based on 3-month LIBOR		
Broker, HSBC Bank USA Expires March 2016	\$20,000,000	448,774
Pay a fixed rate of 5.117% and receive a floating rate based on 3-month LIBOR		

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Broker, Lehman Brothers Special Finance		
Expires March 2036	\$18,000,000	1,549,317
-----		
Total		\$ 2,116,648
=====		

See Notes to Financial Statements.

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## Schedule of Investments

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

### Preferred Securities

Face Amount	Capital Trusts	Value
-----		
Commercial Banks--20.3%		
\$12,035,000	ABN AMRO North America Holding Preferred Capital Repackaging Trust I, 6.523% (a) (b) (c)	\$ 12,318,472
2,000,000	Bank One Capital III, 8.75% due 9/01/2030	2,504,078
1,000,000	Chase Capital I Series A, 7.67% due 12/01/2026	1,047,250
16,455,000	Chase Capital II Series B, 5.649% due 2/01/2027 (b)	15,661,244
34,000,000	Dresdner Funding Trust I, 8.151% due 6/30/2031 (a)	38,813,244
3,630,000	First Empire Capital Trust II, 8.277% due 6/01/2027	3,858,323
1,820,000	First Security Capital I, 8.41% due 12/15/2026	1,921,092
5,600,000	Firststar Capital Trust I Series B, 8.32% due 12/15/2026	5,918,668
2,000,000	HSBC America Capital Trust I, 7.808% due 12/15/2026 (a)	2,100,998
15,835,000	HSBC Capital Funding LP/Jersey Channel Islands, 10.176% (a) (b) (c)	22,240,495
7,300,000	HSBC Finance Capital Trust IX, 5.911% due 11/30/2035 (b)	7,052,493
12,275,000	Hubco Capital Trust II Series B, 7.65% due 6/15/2028	12,888,750
2,000,000	Lloyds TSB Bank Plc, 6.90% (c)	1,970,000
13,500,000	Mizuho JGB Investment LLC, 9.87% (a) (b) (c)	14,603,693
18,470,000	NationsBank Capital Trust III, 5.618% due 1/15/2027 (b)	17,791,394
2,000,000	Republic New York Corp., 7.53% due 12/04/2026	2,090,968
10,000,000	SB Treasury Co. LLC, 9.40% (a) (b) (c)	10,723,560
4,500,000	ST George Funding Co. LLC, 8.485% (a) (c)	4,647,532
		-----
		178,152,254
-----		
Consumer Finance--0.6%		
4,630,000	MBNA Capital A, 8.278% due 12/01/2026	4,877,029
-----		
Diversified Financial Services--5.4%		
15,000,000	AgFirst Farm Credit Bank, 8.393% due 12/15/2016 (b)	16,236,945
10,000,000	CIT Capital Trust I, 7.70% due 2/15/2027	10,476,110
9,000,000	Farm Credit Bank of Texas Series 1, 7.561% (b) (c)	9,439,020
998,000	JPM Capital Trust I, 7.54% due 1/15/2027	1,044,406
10,000,000	Sun Life Canada US Capital Trust, 8.526% (a) (c)	10,646,900
		-----
		47,843,381
-----		
Electric Utilities--2.3%		
14,950,000	HL&P Capital Trust II Series B, 8.257% due 2/01/2037	15,697,500

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5,000,000	SWEPCO Capital I, 5.25% due 10/01/2043 (b)	4,924,150
		-----
		20,621,650
=====		
Gas Utilities--0.6%		
5,000,000	AGL Capital Trust I Series B, 8.17% due 6/01/2037	5,298,305
=====		
Insurance--18.8%		
24,175,000	AON Corp., 8.205% due 1/01/2027	26,749,154
21,300,000	Ace Capital Trust II, 9.70% due 4/01/2030	27,403,898
23,725,000	Axa, 8.60% due 12/15/2030	29,305,689
15,000,000	Farmers Exchange Capital, 7.05% due 7/15/2028 (a)	14,571,765
10,000,000	GE Global Insurance Holding Corp., 7.75% due 6/15/2030	11,573,040
1,000,000	GenAmerica Capital I, 8.525% due 6/30/2027 (a)	1,068,123
6,066,000	ING Capital Funding Trust III, 8.439% (b)(c)	6,704,841
1,000,000	Markel Capital Trust I Series B, 8.71% due 1/01/2046	1,040,723
3,605,000	Oil Casualty Insurance Ltd., 8% due 9/15/2034 (a)	3,421,549
6,325,000	Principal Life Insurance Co., 8% due 03/01/2044	6,504,605
14,000,000	QBE Insurance Group Ltd., 5.647% due 7/01/2023 (a)(b)	13,362,706
6,225,000	Transamerica Capital III, 7.625% due 11/15/2037	6,687,810
15,600,000	Zurich Capital Trust I, 8.376% due 6/01/2037 (a)	16,652,220
		-----
		165,046,123
=====		
Multi-Utilities--3.1%		
10,000,000	Dominion Resources Capital Trust I, 7.83% due 12/01/2027	10,573,300
15,000,000	Dominion Resources Capital Trust III, 8.40% due 1/15/2031	16,789,080
		-----
		27,362,380
=====		
Oil, Gas & Consumable Fuels--2.0%		
5,000,000	KN Capital Trust I Series B, 8.56% due 4/15/2027	5,295,510
1,750,000	KN Capital Trust III, 7.63% due 4/15/2028	1,819,458
9,850,000	Phillips 66 Capital Trust II, 8% due 1/15/2037	10,372,168
		-----
		17,487,136
=====		
Thrifts & Mortgage Finance--4.6%		
	Astoria Capital Trust I:	
1,000,000	9.75% due 11/01/2029 (a)	1,143,000
5,000,000	Series B, 9.75% due 11/01/2029	5,765,000
5,760,000	Dime Capital Trust I Series A, 9.33% due 5/06/2027	6,211,169
12,765,000	GreenPoint Capital Trust I, 9.10% due 6/01/2027	13,734,961
3,005,000	ML Capital Trust I, 9.875% due 3/01/2027	3,205,542
9,775,000	Webster Capital Trust I, 9.36% due 1/29/2027 (a)	10,420,150
		-----
		40,479,822
-----		
	Total Capital Trusts (Cost--\$501,398,952)--57.7%	507,168,080
=====		
Shares		
Held Preferred Stocks		
=====		
Capital Markets--2.0%		
96,000	Goldman Sachs Group, Inc. Series A, 3.91% (b)	2,456,640
600,000	Lehman Brothers Holdings, Inc., 6.50%	15,240,000
		-----
		17,696,640
=====		

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### Commercial Banks--7.3%

435,200	Banco Santander Central Hispano SA, 6.41%	10,575,360
137,579	First Republic Bank, 6.25%	3,413,679
4,650	First Tennessee Bank NA, 3.90% (a) (b)	4,722,656
166,800	Provident Financial Group, Inc., 7.75%	4,326,375
750,000	Royal Bank of Scotland Group Plc Series L, 5.75%	16,530,000
23,000	SG Preferred Capital II, 6.302% (b)	23,558,900
48,000	Sovereign Bancorp, Inc. Series C, 7.30% (d)	1,200,000
		64,326,970

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### Schedule of Investments (continued)

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

### Preferred Securities (continued)

Shares Held	Preferred Stocks	Value
<b>Diversified Financial Services--4.1%</b>		
855,000	CIT Group, Inc. Series A, 6.35%	\$ 21,469,050
320,000	CoBank ACB, 7% (a)	14,873,920
		36,342,970
<b>Electric Utilities--3.0%</b>		
14,000	Alabama Power Co., 5.83%	330,400
80,000	Duquesne Light Co., 6.50%	4,092,000
114,400	Entergy Arkansas, Inc., 6.45%	2,870,731
89,850	Entergy Louisiana LLC, 6.95% (a)	9,086,081
80,000	Interstate Power & Light Co. Series B, 8.375%	2,544,000
304,000	PPL Electric Utilities Corp., 6.25%	7,600,000
		26,523,212
<b>Gas Utilities--1.6%</b>		
556,000	Southern Union Co., 7.55%	14,344,800
<b>Insurance--8.5%</b>		
880,000	ACE Ltd. Series C, 7.80%	22,748,000
140,000	Axis Capital Holdings Ltd. Series A, 7.25%	3,453,800
139,200	Endurance Specialty Holdings Ltd., 7.75%	3,285,120
1,260,000	MetLife, Inc. Series B, 6.50%	31,626,000
140,000	Prudential Plc, 6.50%	3,374,000
9,800	Zurich RegCaPS Funding Trust, 6.58% (a) (b)	10,143,000
		74,629,920
<b>Multi-Utilities--0.4%</b>		
140,000	Pacific Gas & Electric Co. Series A, 6%	3,535,000
<b>Real Estate--0.5%</b>		

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160,000	Public Storage, Inc. Series I, 7.25% (d)	4,015,008
=====		
Thrifts & Mortgage Finance--8.8%		
1,210,000	Fannie Mae, 7% (b)	66,020,625
264,650	Fannie Mae Series L, 5.125%	11,102,067
		-----
		77,122,692
=====		
Wireless Telecommunication Services--0.3%		
2,423	Centaur Funding Corp., 9.08% (a)	2,874,284
		-----
Total Preferred Stocks (Cost--\$320,540,869)--36.5%		321,411,496
=====		

### Real Estate Investment Trusts

=====		
Real Estate--21.8%		
251,400	Alexandria Real Estate Equities, Inc. Series C, 8.375%	6,511,260
400,000	CBL & Associates Properties, Inc. Series C, 7.75%	10,144,000
600,000	CarrAmerica Realty Corp. Series E, 7.50%	15,180,000
680,000	Developers Diversified Realty Corp., 8%	17,408,000
80,000	Duke Realty Corp. Series K, 6.50%	1,878,400
2,390	First Industrial Realty Trust, Inc., 6.236% (b)	2,388,506
4,000	Firststar Realty LLC, 8.875% (a)	4,955,000
768,000	Health Care Property Investors, Inc. Series F, 7.10%	19,161,600
172,800	Health Care REIT, Inc. Series F, 7.625%	4,384,800
684,700	Kimco Realty Corp. Series F, 6.65%	16,562,893
1,600,000	New Plan Excel Realty Trust Series E, 7.625%	40,576,000
PS Business Parks, Inc.:		
72,000	Series K, 7.95%	1,829,520
64,000	Series M, 7.20%	1,550,080
320,000	Public Storage, Inc. Series X, 6.45%	7,164,800
58,000	Regency Centers Corp., 7.25%	1,453,625
607,550	Regency Centers Corp., 7.45%	15,383,166
11,857	Sovereign Real Estate Investment Corp., 12% (a)	16,006,950
145,000	Vornado Realty Trust Series E, 7%	3,557,038
130,000	Wachovia Preferred Funding Corp. Series A, 7.25%	3,484,000
96,000	Weingarten Realty Investors Series D, 6.75%	2,370,240
		-----
Total Real Estate Investment Trusts		
(Cost--\$192,765,535)--21.8%		191,949,878
=====		

Face	
Amount	Trust Preferred
=====	

Aerospace & Defense--3.1%		
\$27,450,000	RC Trust I, 7% due 5/15/2006	27,467,184
=====		
Capital Markets--0.1%		
875,000	Lehman Brothers Holdings Capital Trust III Series K, 1.558% due 3/15/2052	817,981
=====		
Communications Equipment--0.2%		
2,000,000	Corporate-Backed Trust Certificates, 8.375% due 11/15/2028	2,027,997
=====		
Electric Utilities--1.5%		
4,750,000	Georgia Power Co. Series O, 1.475% due 4/15/2033	4,278,726

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3,000,000	HECO Capital Trust III, 6.50% due 3/18/2034	3,001,258
5,000,000	National Rural Utilities Cooperative Finance Corp., 6.75% due 2/15/2043	4,907,063
950,000	Virginia Power Capital Trust II, 1.844% due 7/30/2042	952,264
		-----
		13,139,311
=====		
Gas Utilities--0.7%		
500,000	Dominion CNG Capital Trust I, 1.95% due 10/31/2041	500,765
5,750,000	Southwest Gas Capital II, 7.70% due 9/15/2043	6,040,895
		-----
		6,541,660
=====		
Insurance--3.3%		
16,000,000	ABN AMRO North America Capital Funding Trust II, 4.965% (a) (b) (c)	16,214,638
7,375,000	Berkley W R Capital Trust, 6.75% due 7/26/2045	6,894,502
1,000,000	Everest Re Capital Trust, 1.963% due 11/15/2032	1,005,118
5,000,000	Lincoln National Capital VI Series F, 6.75% due 9/11/2052	4,901,382
		-----
		29,015,640
=====		
Multi-Utilities--0.1%		
397,425	PSEG Funding Trust II, 8.75% due 12/31/2032	412,870
=====		

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

Preferred Securities (concluded)

Face Amount	Trust Preferred	Value
=====		
Thriffs & Mortgage Finance--3.6%		
\$27,000,000	Countrywide Financial Corp., 1.50% due 4/01/2033	\$ 25,824,469
6,000,000	Dime Community Capital I, 7% due 4/14/2034	5,850,000
		-----
		31,674,469
-----		
	Total Trust Preferred (Cost--\$112,462,744)--12.6%	111,097,112
=====		
	Total Preferred Securities (Cost--\$1,127,168,100)--128.6%	1,131,626,566
=====		

Corporate Bonds

Automobiles--3.4%		
22,500,000	DaimlerChrysler NA Holding Corp., 8.50% due 1/18/2031	26,082,698
5,000,000	Ford Motor Co., 7.45% due 7/16/2031	3,650,000
		-----



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		29,732,698
=====		
Commercial Banks--3.5%		
5,000,000	HBOS Plc, 5.92% (a) (b) (c)	4,755,010
20,000,000	Resona Preferred Global Securities Ltd., 7.191% (a) (b) (c)	20,561,840
4,800,000	Royal Bank of Scotland Group Plc, 9.118% (c)	5,350,829
		-----
		30,667,679
=====		
Diversified Financial Services--2.5%		
8,000,000	Ford Motor Credit Co., 7% due 10/01/2013	7,039,024
15,000,000	Sigma Finance Corp., 7.249% due 8/15/2011 (e)	15,000,000
		-----
		22,039,024
=====		
Diversified Telecommunication Services--3.6%		
25,500,000	France Telecom SA, 8.50% due 3/01/2031	31,427,322
=====		
Electric Utilities--1.2%		
10,000,000	FirstEnergy Corp. Series B, 6.45% due 11/15/2011	10,312,230
=====		
Independent Power Producers & Energy Traders--2.2%		
16,575,000	Duke Energy Field Services LLC, 8.125% due 8/16/2030	19,667,746
=====		
Media--3.4%		
5,000,000	Comcast Corp., 7.05% due 3/15/2033	5,112,185
	Time Warner, Inc.:	
5,000,000	7.625% due 4/15/2031	5,412,660
18,000,000	7.70% due 5/01/2032	19,671,066
		-----
		30,195,911
=====		
Road & Rail--0.4%		
3,750,000	BNSF Funding Trust I, 6.613% due 12/15/2055 (b)	3,603,698
=====		
Thrifths & Mortgage Finance--0.9%		
8,000,000	Roslyn Real Estate Asset Corp. Series D, 8.629% (b) (c)	8,000,000
=====		
Wireless Telecommunication Services--6.2%		
18,000,000	AT&T Wireless Services, Inc., 8.75% due 3/01/2031	22,626,036
	Sprint Capital Corp.:	
2,000,000	6.90% due 5/01/2019	2,116,514
24,000,000	8.75% due 3/15/2032	29,778,888
		-----
		54,521,438
-----		
	Total Corporate Bonds (Cost--\$236,767,908)--27.3%	240,167,746
=====		
Beneficial		
Interest Short-Term Securities		
=====		
\$35,886,321	Merrill Lynch Liquidity Series, LLC Cash Sweep Series I, 4.75% (f) (g)	35,886,321
-----		
	Total Short-Term Securities (Cost--\$35,886,321)--4.1%	35,886,321
=====		
Total Investments (Cost--\$1,399,822,329*)--160.0%		1,407,680,633
-----		
Other Assets Less Liabilities--2.6%		22,756,021

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Preferred Stock, at Redemption Value--(62.6%)	(550,500,938)
Net Assets Applicable to Common Stock--100.0%	\$ 879,935,716

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

\* The cost and unrealized appreciation (depreciation) of investments as of April 30, 2006, as computed for federal income tax purposes, were as follows:

Aggregate cost .....	\$ 1,393,592,544
	=====
Gross unrealized appreciation .....	\$ 42,464,910
Gross unrealized depreciation .....	(28,376,821)
	-----
Net unrealized appreciation .....	\$ 14,088,089
	=====

- (a) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
- (b) Floating rate security.
- (c) The security is a perpetual bond and has no definite maturity date.
- (d) Depositary receipts.
- (e) Restricted security as to resale, representing approximately 1.7% of net assets, was as follows:

Issue	Acquisition Date	Cost	Value
Sigma Finance Corp., 7.249% due 8/15/2011	2/13/2004	\$15,000,000	\$15,000,000

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

Affiliate	Net Activity	Interest Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	\$35,886,321	\$368,202

- (g) Represents the current yield as of 4/30/2006.
- o For Fund compliance purposes, the Fund's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease. Industries are shown as a percent of net assets.

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- o Financial futures contracts sold as of April 30, 2006 were as follows:

Number of Contracts	Issue	Expiration Date	Face Value	Unrealized Appreciation
2,885	10-Year U.S. Treasury Notes	June 2006	\$310,505,140	\$5,912,250

- o Swaps outstanding as of April 30, 2006 were as follows:

	Notional Amount	Unrealized Appreciation
Sold credit default protection on a basket of preferred securities and receive 2.03%		
Broker, Lehman Brothers Special Finance Expires September 2007	\$36,000,000	\$ 474,228
Pay a fixed rate of 5.2687% and receive a floating rate based on 3-month LIBOR		
Broker, HSBC Bank USA Expires March 2016	\$80,000,000	1,781,946
Pay a fixed rate of 5.117% and receive a floating rate based on 3-month LIBOR		
Broker, Lehman Brothers Special Finance Expires March 2036	\$72,000,000	6,196,642
Total		\$ 8,452,816 =====

See Notes to Financial Statements.

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APRIL 30, 2006

Statements of Net Assets

As of April 30, 2006

Assets

Investments in unaffiliated securities, at value*	.....
Investments in affiliated securities, at value**	.....
Cash on deposit for financial futures contracts	.....
Unrealized appreciation on swaps	.....
Interest receivable	.....
Dividends receivable	.....
Receivable for swaps	.....

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

Liabilities

Payable for securities purchased .....  
Dividends payable to Common Stock shareholders .....  
Payable for variation margin .....  
Payable for swaps .....  
Payable to investment adviser .....  
Payable for other affiliates .....  
Accrued expenses and other liabilities .....  
Total liabilities .....

Preferred Stock

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

Net Assets Applicable to Common Stock

Net assets applicable to Common Stock .....

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Statements of Net Assets (concluded)

As of April 30, 2006

Analysis of Net Assets Applicable to Common Stock

Undistributed (accumulated distributions in excess of) investment income--net .....  
Accumulated realized capital losses--net .....  
Unrealized appreciation--net .....  
Total accumulated losses--net .....  
Common Stock, par value \$.10 per share++ .....  
Paid-in capital in excess of par .....  
Net Assets .....  
Net asset value per share of Common Stock .....  
Market price .....

\* Identified cost on unaffiliated securities .....

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\*\* Identified cost on affiliated securities .....

+ Preferred Stock authorized, issued and outstanding:

    Series M7 Shares .....

    Series T7 Shares .....

    Series W7 Shares .....

    Series TH7 Shares .....

    Series F7 Shares .....

    Series W28 Shares .....

    Series TH28 Shares .....

++ Common Stock issued and outstanding .....

@ Auction Market Preferred Stock

See Notes to Financial Statements.

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APRIL 30, 2006

Statements of Operations

For the Six Months Ended April 30, 2006

=====  
Investment Income  
-----

Interest\* .....

Dividends .....

Total income .....

=====  
Expenses  
-----

Investment advisory fees .....

Commission fees .....

Accounting services .....

Transfer agent fees .....

Professional fees .....

Custodian fees .....

Printing and shareholder reports .....

Directors' fees and expenses .....

Pricing fees .....

Listing fees .....

Other .....

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Total expenses .....  
Investment income--net .....

=====  
Realized & Unrealized Gain (Loss)--Net  
-----

Realized gain (loss) on:  
Investments--net .....  
Futures contracts and swaps--net .....

Total realized loss--net .....

Change in unrealized appreciation/depreciation on:  
Investments--net .....  
Futures contracts and swaps--net .....

Total change in unrealized appreciation/depreciation--net .....

Total realized and unrealized loss--net .....

=====  
Dividends to Preferred Stock Shareholders  
-----

Investment income--net .....

Net Increase in Net Assets Resulting from Operations .....

\* Interest from affiliates .....

See Notes to Financial Statements.

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Statements of Changes in Net Assets

Preferred and Corporate Income Strategies Fund, Inc.

Increase (Decrease) in Net Assets:  
=====

Operations  
-----

Investment income--net .....  
Realized loss--net .....  
Change in unrealized appreciation/depreciation--net .....  
Dividends to Preferred Stock shareholders .....

Net increase in net assets resulting from operations .....

=====  
Dividends to Common Stock Shareholders  
-----

Investment income--net .....

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Net decrease in net assets resulting from dividends to Common Stock shareholders .....

=====  
 Net Assets Applicable to Common Stock  
 -----

Total decrease in net assets applicable to Common Stock .....  
 Beginning of period .....

End of period\* .....

\* Undistributed investment income--net .....

See Notes to Financial Statements.

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

Increase (Decrease) in Net Assets:

=====  
 Operations  
 -----

Investment income--net .....  
 Realized loss--net .....  
 Change in unrealized appreciation/depreciation--net .....  
 Dividends to Preferred Stock shareholders .....

Net increase in net assets resulting from operations .....

=====  
 Dividends to Common Stock Shareholders  
 -----

Investment income--net .....

Net decrease in net assets resulting from dividends to Common Stock shareholders .....

=====  
 Common Stock Transactions  
 -----

Value of shares issued to Common Stock shareholders in reinvestment to dividends .....

Net increase in net assets derived from Common Stock transactions .....

=====  
 Net Assets Applicable to Common Stock  
 -----

Total decrease in net assets applicable to Common Stock .....  
 Beginning of period .....

End of period\* .....

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

See Notes to Financial Statements.

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Financial Highlights Preferred and Corporate 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, 2006

Per Share Operating Performance

Net asset value, beginning of period .....	\$ 22.36	\$
Investment income--net .....	1.03@@	
Realized and unrealized gain (loss)--net .....	(.34)	
Dividends to Preferred Stock shareholders from investment income--net ...	(.29)	
Total from investment operations .....	.40	
Less dividends to Common Stock shareholders from investment income--net .	(.89)	
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 .....	\$ 21.87	\$
Market price per share, end of period .....	\$ 19.91	\$

Total Investment Return\*\*

Based on net asset value per share .....	2.11%@
Based on market price per share .....	(1.17)%@

Ratios Based on Average Net Assets of Common Stock

Total expenses, net of waiver*** .....	1.28%*
Total expenses*** .....	1.28%*
Total investment income--net*** .....	9.34%*
Amount of dividends to Preferred Stock shareholders .....	2.59%*
Investment income--net, to Common Stock shareholders .....	6.75%*



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Ratios Based on Average Net Assets of Preferred Stock

Dividends to Preferred Stock shareholders ..... 4.34%\*

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Financial Highlights (concluded)

Preferred and Corporate 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, 2006

Supplemental Data

Net assets applicable to Common Stock, end of period (in thousands) ..... \$224,848 \$224,848

Preferred Stock outstanding, end of period (in thousands) ..... 136,500 \$136,500

Portfolio turnover ..... 4.10%

Leverage

Asset coverage per \$1,000 ..... \$ 2,647 \$ 2,647

Dividends Per Share on Preferred Stock Outstanding++

Series M7--Investment income--net ..... \$ 539 \$ 539

Series T7--Investment income--net ..... \$ 537 \$ 537

\* 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.

@@ Based on average shares outstanding.

See Notes to Financial Statements.

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Financial Highlights

Preferred Income Strategies Fund, Inc.

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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,  
2006

Per Share Operating Performance

Net asset value, beginning of period .....	\$ 22.26	\$
Investment income--net .....	.95@	
Realized and unrealized gain (loss)--net .....	(.39)	
Dividends and distributions to Preferred Stock shareholders:		
Investment income--net .....	(.29)	
Realized gain--net .....	--	
Total from investment operations .....	.27	
Less dividends and distributions to Common Stock shareholders:		
Investment income--net .....	(.86)	
Realized gain--net .....	--	
Total dividends and distributions to Common Stock shareholders .....	(.86)	
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 .....	\$ 21.67	\$
Market price per share, end of period .....	\$ 19.02	\$

Total Investment Return\*\*

Based on net asset value per share .....	1.57%@
Based on market price per share .....	(6.39)%@

Ratios Based on Average Net Assets of Common Stock

Total expenses, net of waiver*** .....	1.23%*
Total expenses*** .....	1.23%*
Total investment income--net*** .....	8.63%*
Amount of dividends to Preferred Stock shareholders .....	2.74%*
Investment income--net, to Common Stock shareholders .....	5.89%*

Ratios Based on Average Net Assets of Preferred Stock

Dividends to Preferred Stock shareholders .....	4.49%*
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APRIL 30, 2006

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, 2006	Fo --- 2
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Supplemental Data

Net assets applicable to Common Stock, end of period (in thousands) .....	\$879,936	\$90
Preferred Stock outstanding, end of period (in thousands) .....	\$550,000	\$55
Portfolio turnover .....	4.71%	

Leverage

Asset coverage per \$1,000 .....	\$ 2,600	\$
----------------------------------	----------	----

Dividends Per Share on Preferred Stock Outstanding++

Series M7--Investment income--net .....	\$ 540	\$
Series T7--Investment income--net .....	\$ 535	\$
Series W7--Investment income--net .....	\$ 548	\$
Series TH7--Investment income--net .....	\$ 544	\$
Series F7--Investment income--net .....	\$ 541	\$
Series W28--Investment income--net .....	\$ 563	\$
Series TH28--Investment income--net .....	\$ 599	\$

\* 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 based upon quoted fair valuations received daily by each Fund from a pricing service or 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. Valuation of other short-term investment vehicles is generally based on the net asset value of the underlying investment vehicle or amortized cost. 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

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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 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 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 -- 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.

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### Notes to Financial Statements (continued)

- 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 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 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. These periodic payments received or made by the Fund are

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

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Notes to Financial Statements (continued)

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

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

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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 Stock) plus the proceeds of any outstanding borrowings used for leverage.

The Funds have 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 Merrill Lynch Investment Managers, L.P. ("MLIM"), an affiliate of FAM.

For the six months ended April 30, 2006, each Fund reimbursed FAM for certain accounting services. The reimbursements were as follows:

	Reimbursement
Preferred and Corporate Income Strategies Fund, Inc. ....	\$ 3,801
Preferred Income Strategies Fund, Inc. ....	\$15,761

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

In February 2006, ML & Co. and BlackRock, Inc. entered into an agreement to contribute ML & Co.'s investment management business, including FAM, to the investment management business of BlackRock, Inc. The transaction is expected to close in the third quarter of 2006.

### 3. Investments:

Purchases and sales of investments, excluding short-term securities, for the six months ended April 30, 2006 were as follows:

	Preferred and Corporate Income Strategies Fund, Inc.	Preferred Income Strategies Fund, Inc.
Total Purchases .....	\$14,653,235	\$67,314,115
Total Sales .....	\$20,588,477	\$94,905,969

### 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 & Corporate Income Strategies Fund, Inc.

Shares issued and outstanding for the six months ended April 30, 2006 and the year ended October 31, 2005 remained constant.

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Preferred Income Strategies Fund, Inc.

Shares issued and outstanding for the six months ended April 30, 2006 increased by 13,470 as a result of dividend reinvestment. Shares issued and outstanding for the year ended October 31, 2005 remained constant.

### 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 receive cash dividends at an annual rate that may vary for the successive dividend periods. The yields in effect at April 30, 2006 were as follows:

	Preferred and Corporate Income Strategies Fund, Inc.	Preferred Income Strategies Fund, Inc.
Series M7 .....	4.60%	4.65%
Series T7 .....	4.72%	4.70%
Series W7 .....	--	4.65%
Series TH7 .....	--	4.75%
Series F7 .....	--	4.65%
Series W28 .....	--	4.79%
Series TH28 .....	--	4.85%

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### Notes to Financial Statements (concluded)

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, 2006, MLPF&S earned commissions as follows:

	Commissions
Preferred and Corporate Income Strategies Fund, Inc. ....	\$136,378
Preferred Income Strategies Fund, Inc. ....	\$256,231

### 5. Capital Loss Carryforward:

Preferred & Corporate Income Strategies Fund, Inc.

At October 31, 2005, the Fund had a net capital loss carryforward of \$16,578,662, of which \$1,276,621 expires in 2011, \$10,243,141 expires in 2012, and \$5,058,900 expires in 2013. These amounts will be available to offset like amounts of any future taxable gains.

Preferred Income Strategies Fund, Inc.

At October 31, 2005, the Fund had a net capital loss carryforward of \$80,644,979, of which \$62,733,648 expires in 2012 and \$17,911,331 expires in 2013. These amounts will be available to offset like amounts of any future



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taxable gains.

6. Subsequent Event:

Each Fund paid an ordinary income dividend to holders of Common Stock on May 31, 2006 to shareholders of record on May 15, 2006. The amount of the ordinary income dividend per share was as follows:

	Per Share Amount
Preferred and Corporate Income Strategies Fund, Inc. ....	\$.133333
Preferred Income Strategies Fund, Inc. ....	\$.127083

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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:  
 Computershare Trust Company, N.A.  
 P.O. Box 43010  
 Providence, RI 02940-3010  
 1-800-426-5523

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

Investment Objectives

NYSE Symbol PSW Preferred and Corporate Income Strategies Fund, Inc. seeks to 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.

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### 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.

### 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.

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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 1-800-637-3863; (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.  
Box 9011  
Princeton, NJ 08543-9011

#PCPIS -- 4/06

- 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.

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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

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

Preferred Income Strategies Fund, Inc.

By: /s/ Robert C. Doll, Jr.

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

Date: June 22, 2006

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

By: /s/ Robert C. Doll, Jr.

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

Date: June 22, 2006

By: /s/ Donald C. Burke

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

Date: June 22, 2006