C F&C PREFERRED SECURITIES INCOME FUND I INC
Form N-2
June 26, 2002

As filed with the Securities and Exchange Commission on June 26, 2002
File Nos. 333-_____; 811-____

==

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-2

(CHECK APPROPRIATE BOX OR BOXES)
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 [X]
Pre-Effective Amendment No. [ ]
Post-Effective Amendment No. [ ]

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1940 [X]
Amendment No.

F&C/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED
(Exact Name of Registrant as Specified in Charter)

301 E. Colorado Boulevard
Pasadena, California 91101
Address of Principal Executive Offices
(Number, Street, City, State and Zip Code)

(626) 795-7300
Registrant's Telephone Number, including Area Code

Robert M. Ettinger
301 E. Colorado Boulevard
Suite 720
Pasadena, CA 91101
Name and Address (Number, Street, City, State and Zip Code)
of Agent for Service

WITH COPIES TO:
Rose F. DiMartino, Esq.
Willkie Farr & Gallagher
787 Seventh Avenue
New York, New York 10019
(212) 728-8000

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box [ ]

It is proposed that this filing will become effective (check appropriate box):
[ ] when declared effective pursuant to Section 8(c) of the Securities Act of 1933.

If appropriate, check the following box:

[ ] This post-effective amendment designates a new effective date for a previous filed registrations statement.

[ ] This Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is ____.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price (1)
Common Stock, $0.01 par value per share	4,000,000 Shares	$15.00	$60,000,000

(1) Estimated solely for purposes of calculating the registration fee.
(2) Transmitted prior to filing.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

THE UNDERSIGNED REGISTRANT HEREBY UNDERTAKES THAT: (1) FOR PURPOSES OF DETERMINING ANY LIABILITY UNDER THE SECURITIES ACT OF 1933, THE INFORMATION OMITTED FROM THE FORM OF PROSPECTUS FILED AS PART OF THE REGISTRATION STATEMENT IN RELIANCE UPON THE PROSPECTUS FILED BY THE REGISTRANT PURSUANT TO RULE 424(b)(1) OR (4) OR 497(h) UNDER THE SECURITIES ACT SHALL BE DEEMED TO BE PART OF THIS REGISTRATION STATEMENT AS OF THE TIME IT WAS DECLARED EFFECTIVE; (2) FOR THE PURPOSE OF DETERMINING ANY LIABILITY UNDER THE SECURITIES ACT OF 1933, EACH POST-EFFECTIVE AMENDMENT THAT CONTAINS A FORM OF PROSPECTUS SHALL BE DEEMED TO BE A NEW REGISTRATION STATEMENT RELATING TO THE SECURITIES OFFERED THEREIN, AND THE OFFERING OF SUCH SECURITIES AT THAT TIME SHALL BE DEEMED TO BE THE INITIAL BONA FIDE OFFERING THEREOF.

-2-

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED June 26, 2002

PROSPECTUS
[F&C LOGO] [CLAYMORE LOGO]

20,000,000 SHARES
F&C/CLAYMORE PREFERRED SECURITIES
INCOME FUND INCORPORATED

COMMON STOCK

F&C/Claymore Preferred Securities Income Fund Incorporated (the "Fund") is a newly organized, closed-end, diversified management investment company.

- The Fund's investment objective is high current income for holders of its Common Stock consistent with preservation of capital.

- At least 80% of the Fund's total assets will be invested in a diversified portfolio of preferred securities.

- At least 80% of the Fund's preferred securities will be investment grade quality at the time of purchase.

- Up to 20% of the Fund's assets may be invested in securities rated below investment grade (but not below Ba3 or BB-), provided the issuer has investment grade senior debt outstanding.

- The Fund's investment adviser pursues strategies that include, among other things, "safety-net" hedging, which are generally intended to result in the Fund's income increasing in response to significant increases in interest rates while being relatively resistant to the impact of significant declines in interest rates.

Prior to this offering, there has been no public market for the Common Stock. The Common Stock has been accepted for listing on the New York Stock Exchange, subject to notice of issuance, under the trading symbol of "__." The minimum purchase in this offering is 100 shares ($1,500). Shares of closed-end funds have in the past frequently traded at discounts from their net asset values and initial offering prices. The risks associated with this characteristic of closed-end investment companies may be greater for investors expecting to sell shares of a closed-end investment company soon after the completion of an initial public offering of the company's shares.

An investment in the Fund involves certain risks and special considerations and may not be appropriate for all investors. See "Investment Objective and Policies -- Risk Factors and Special Considerations." There can be no assurance that the Fund will achieve its investment objective.

This Prospectus sets forth concisely information about the Fund that investors should know before investing, including information about certain risks. You should read this Prospectus before you invest and keep it for future reference.

(Continued on page 2)

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Sales Load	

Per Share.................	$15.00	$	$
Total(2)..................	$300,000,000	$	$

(Footnotes on page 2)

The shares of Common Stock offered by this Prospectus are offered by the Underwriters subject to prior sale, withdrawal, cancellation or modification of the offer without notice and to certain further conditions. It is expected that delivery of the shares will be made at the offices of _________, New York, New York, on or about ________ __, 2002.

CLAYMORE SECURITIES, INC.
[UNDERWRITERS]

, 2002

(Continued from page 1)

Flaherty & Crumrine Incorporated acts as investment adviser to the Fund. The Fund's address is 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101, and the Fund's telephone number is (626) 795-7300.

Within three months after the completion of the offering of Common Stock described in this Prospectus, the Fund intends, subject to then favorable conditions, to offer shares of auction rate preferred stock representing up to approximately __% of the Fund's capital immediately following the issuance of such shares. The issuance of these shares, which would be senior to the Common Stock, will result in the financial leveraging of the Common Stock. Whether to offer shares of auction rate preferred stock and, if offered, the terms of such shares and the timing and other terms of their offering will be determined by the Fund's Board of Directors. The Fund anticipates that shares of auction rate preferred stock will pay dividends based on short-term rates, and that the net return on the Fund's portfolio, including the proceeds of the preferred stock offering, will exceed the dividend rate on such shares. Investors should note that there are special risks and costs associated with the leveraging of the Common Stock. See "Special Leverage Considerations" and "Description of Capital Stock."

(Footnotes from page 1)

(1) Before deducting estimated offering and organizational expenses aggregating $__________.

(2) The Fund has granted the Underwriters an option, exercisable within 30 days from the date of this Prospectus, to purchase up to _________ additional shares of Common Stock to cover over-allotments, if any. If the option is exercised in full, the total Price to Public, Sales Load and Proceeds to the Fund will be increased by $__________, $___________ and $___________, respectively. See "Underwriting."

AVAILABLE INFORMATION

The Fund has filed with the Commission a registration statement under the Securities Act of 1933, as amended, with respect to the shares of Common Stock offered hereby. Further information concerning these securities and the Fund may be found in the registration statement, of which this Prospectus constitutes a part, on file with the Commission. The registration statement may be inspected without charge at the Commission's office in Washington, D.C., and copies of all or any part thereof may be obtained from such office after payment of the fees prescribed by the Commission. The Fund's 1940 Act registration number is 811-______.

The Fund is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and the 1940 Act, and in accordance therewith will file reports and other information with the Commission. Such reports, proxy and information statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and the Commission's regional offices, including an office at 233 Broadway, New York, New York 10279. Call 202-942-8090 for information about the public reference facilities. Copies of such material can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549-0102 at prescribed rates. Such reports and other information concerning the Fund may also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005. The Commission maintains a Web site (http://www.sec.gov) that contains material incorporated by reference into this Prospectus and reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

This Prospectus does not contain all of the information in the Fund's registration statement, including amendments, exhibits, and schedules. Statements in this Prospectus about the contents of any contract or other document are not necessarily complete and in each instance reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

PROSPECTUS SUMMARY

This summary highlights selected information from this Prospectus. It may not contain all of the information that is important to you. You should read this entire Prospectus carefully, including the risk factors, to understand the offering of the shares of Common Stock fully. The following information is qualified in its entirety by reference to the more detailed information included elsewhere in this Prospectus and Appendix A hereto.

THE FUND.............................. The Fund is a newly organized, diversified, closed-end management investment company that will invest, under normal market conditions, at least 80% of its total net assets in a portfolio of preferred securities, some or all of which are expected to be hedged. See "The Fund" and "Investment Objective and Policies."

THE OFFERING........................... Up to 20,000,000 shares of Common Stock are being offered by a group of underwriters (the "Underwriters") represented by [   ] (the "Representatives"). The Underwriters have been granted an option to purchase up to 3,000,000 additional shares to cover over-allotments. See "Underwriting."

LISTING................................ New York Stock Exchange ("NYSE").

SYMBOL................................. "FFC" anticipated.

MINIMUM PURCHASE....................... 100 shares ($1,500).

INVESTMENT OBJECTIVE AND POLICIES....... Objective. The Fund's investment objective is high current income for holders of its Common Stock consistent with preservation of capital. The Fund's investment adviser pursues strategies that it expects generally to result in the Fund's income increasing in response to significant increases in interest rates while being relatively resistant to the impact of significant declines in interest rates. This strategy involves "safety-net" hedging strategies and is described more fully below.

In seeking its objective, the Fund normally will invest at least 80% of its total net assets in a diversified portfolio of preferred securities. The Fund may also invest up to 20% of its assets in debt securities and up to 15% of its assets in common stocks. The portions of the Fund's assets invested in various types of preferred, debt or equity may vary from time to time depending on market conditions. The portion of securities that the Fund will hedge, as well as the types of hedge positions utilized, may also vary significantly from time to time.

Credit Quality. Preferred or debt securities that the Fund will acquire will be rated investment grade (at least "Baa3" by Moody's Investors Services, Inc. ("Moody's") or "BBB-" by Standard & Poor's Corporation ("S&P")) at the time of investment or will be preferred or debt securities of issuers of investment grade senior debt, which securities are rated, at the time of investment, at least either "Ba3" by Moody's or "BB-" by S&P. In addition, the Fund may invest in unrated issues that the Fund's investment adviser deems to be comparable in quality to rated issues in which the Fund is authorized to invest.

The Fund will limit to 20% of its assets its holdings of securities rated below investment grade (which securities must be rated at least either "Ba3" by Moody's or "BB-" by S&P) at the time of purchase or judged to be comparable in quality at the time of purchase; however, any such securities must be issued by an issuer having a class of senior debt rated investment grade outstanding.

"Safety-Net" Hedging Strategies. The Fund currently anticipates hedging some or all of the general interest rate exposure inherent in its holdings of preferred and debt securities. The response of the Fund's income to changes in interest rates will be impacted by the effectiveness of its hedging strategies. Under current market conditions, this hedging would be accomplished principally by one or more of the following strategies: (1) purchasing put options (called a "long position in a put option") on Treasury Bond and/or Treasury Note futures contracts, (2) entering into futures contracts to sell Treasury Bonds and/or Treasury Notes (called a "short position in a futures contract"), (3) entering into interest rate swap agreements as a "fixed rate payer", and/or (4) purchasing options to enter into interest rate swap agreements as a "fixed rate payer" (called a "pay fixed swaption").

The hedging positions that the Fund currently expects to hold normally appreciate in value when interest rates rise significantly, reflecting either the expected rise in yields of Treasury securities or interest rate swap yields, as applicable, and the associated decline in the prices of underlying Treasury securities or decreased net market value of an obligation to pay a fixed income stream in a higher interest rate environment.

The response of the Fund's income to changes in interest rates will be impacted by the effectiveness of its hedging strategies. There are economic costs of hedging reflected in the pricing of

futures, interest rate swaps, options and swaptions contracts which can be significant, particularly when long-term interest rates are substantially above short-term interest rates, as is the case at present. For a more detailed discussion of futures transactions, interest rate swaps, and related options, and the risks associated with investing in those instruments, see "Investment Objective and Policies--Investment Techniques--Futures Contracts and Options on Futures Contracts" and "Interest Rate Swaps and Options Thereon ("Swaptions")".

Preferred Securities. Preferred securities include preferred/ preference stock and "hybrid" or taxable preferred securities that meet certain criteria (as described below). The preferred securities in which the Fund invests consist principally of fixed rate, adjustable rate, and inverse floating rate securities, some or all of which are expected to be hedged. Preferred securities include securities that are commonly known as MIPs, QUIPS, TOPrS, TrUPS, QUIBS, QUIDS, CORTS, PINES, Trust Preferred Securities or capital securities.

Industry Diversification. Under normal market conditions,

-The Fund intends to invest 25% or more of its assets in securities of companies in the utilities industry.

-The Fund intends to invest 25% or more of its assets in securities of companies in the banking industry.

The Fund's holdings of securities of companies in any industry other than the utilities industry or the banking industry will at all times be less than 25% of the Fund's assets. Consistent with the limitations described above, the proportion of the Fund's assets invested in the utilities, banking and other industries may vary from time to time, depending on market conditions.

Convertible Securities and Common Stock. Certain traditional and hybrid preferred securities are convertible into the common stock of the associated issuer. To the extent that such preferred securities, because of their terms and market conditions, trade in close relationship to the underlying common stock of the issuer, they will be subject to the limit of 15% of total assets, under normal market conditions, that also applies to common stocks. Otherwise, such convertible preferred securities will be treated by the Fund in the same manner as non-convertible preferred securities.

Special Tax Considerations. The Fund's investment adviser expects that a significant portion of the Fund's distributions may qualify for the intercorporate dividends received deduction ("DRD") allowed corporations under Section 243 of the Internal Revenue Code of 1986, as amended (the "Code"), although distributions paid from the Fund's non-dividend income and distributions attributable to short-term and long-term capital gains will not so qualify.

-4-

See "Investment Objective and Policies" and Appendix A to this Prospectus.

INVESTMENT ADVISER AND SERVICING AGENT................................. Flaherty & Crumrine Incorporated (the "Adviser"), a registered investment adviser, acts as the Fund's investment adviser. The Adviser has been active in the management of portfolios of preferred securities, including related hedging activities, since 1983. The Adviser had aggregate assets under management, as of June 30, 2002 (excluding the net assets of the Fund), equal to approximately $[806] million.

Claymore Securities, Inc. (the "Servicing Agent"), a registered broker-dealer, acts as shareholder servicing agent to the Fund, and provides oversight of the Administrator. With roots tracing back to 1935, Claymore specializes in the creation and sponsorship of financial products, as well as investment banking and advisory services.

The Fund pays the Adviser and Servicing Agent an aggregate monthly fee for their advisory and servicing functions at a combined annual rate of ___ of 1.00% of the Fund's average monthly net assets, such net assets being calculated as described below under "Management of the Fund -- Investment Adviser."

ADMINISTRATOR.......................... ____________________ serves as the Fund's administrator (the "Administrator"). The Administrator calculates the net asset value of the Fund's shares and generally assists

in all aspects of the Fund's administration and operation. As compensation for the Administrator's services, the Fund pays the Administrator a monthly fee at an annual rate of .__ of 1.00% of the Fund's average monthly net assets. The Administrator also serves as the Fund's Common Stock servicing agent (transfer agent), dividend-paying agent and registrar and, as compensation for the Administrator's services as such, the Fund pays the Administrator a fee at an annual rate of .__ of 1.00% of the Fund's average monthly net assets plus certain out-of-pocket expenses.

PROPOSED OFFERING OF SHARES OF AUCTION RATE PREFERRED STOCK......... Within three months after the completion of the offering described in this Prospectus, the Fund intends, subject to then favorable market conditions, to offer shares of auction rate preferred stock in one or more series representing approximately 37% of the Fund's capital immediately following the issuance of those shares. No assurance can be given that shares of auction rate preferred stock representing that percentage of the

Fund's capital will in fact be issued and, if issued, will remain outstanding for any specific period of time. The issuance of auction rate preferred stock, which would be senior to the Common Stock, will result in the financial leveraging of the Common Stock. Whether to offer shares of auction rate preferred stock and, if offered, the terms of the shares of auction rate preferred stock and the terms and timing of the auction rate preferred stock offering will be determined by the Fund's Board of Directors. It is anticipated that the Fund's auction rate preferred stock will pay dividends that will be adjusted over relatively short periods of time (normally 49 days) as determined through periodic auctions, that the dividend rate will typically reflect prevailing short-term interest rates and that the proceeds of the auction rate preferred stock offering will be invested in accordance with the Fund's investment objective. Dividends paid on shares of auction rate preferred stock are expected to qualify generally for the DRD to the extent they are derived from DRD qualifying income, although dividends paid from the Fund's non-dividend income and distributions attributable to short-term and long-term capital gains will not so qualify.

See "Taxation." The fees and expenses incident to the offering and issuance of auction rate preferred stock will be recorded as a reduction of capital of the Fund attributable to the Common Stock. See "The Fund" and "Special Leverage Considerations."

LEVERAGE CONSIDERATIONS................ The Fund anticipates that, while the Fund will pay dividends on its auction rate preferred stock based on shorter-term rates, the net return on the Fund's portfolio, including the proceeds of the auction rate preferred stock offering, will exceed the dividend rate on the auction rate preferred stock and any Additional

Distributions, although no assurance can be given that the issuance of auction rate preferred stock will result in a higher net return to Common Stock shareholders. So long as the Fund is able to invest the proceeds of both the Common Stock and the auction rate preferred stock offerings in securities that provide a higher net return than a rate of return based on the then current dividends paid on the auction rate preferred stock outstanding and the then current Additional Distribution payments after taking into account the expenses of the auction rate preferred stock offering and the Fund's operating expenses, the effect of leverage will be to cause the Common Stock shareholders to realize a higher current rate of return than if the Fund were not leveraged. If the current dividend rate on the auction rate preferred stock outstanding were to approach the net return on the Fund's investment portfolio after expenses, however, the benefit of leverage to the Common Stock shareholders would be reduced. Moreover, if the current dividend rate on the auction rate preferred stock outstanding were to exceed the net return on the Fund's portfolio, the Fund's leveraged capital structure would result in a lower rate of return to the Common Stock shareholders. See "Description of Capital Stock -- Preferred Stock."

RATING AGENCY GUIDELINES AND ASSET COVERAGE REQUIREMENTS................ In connection with the anticipated issuance of auction rate preferred stock, the Fund's investments will be subject to certain investment guidelines and certain minimum asset and dividend coverage and liquidity requirements established by Moody's. Provided that the Fund complies with these guidelines, it is expected that the auction rate preferred stock will be rated "Aa" by Moody's. In addition, in order to pay dividends on the Common Stock, the Fund will be required by the Investment Company Act of 1940, as amended (the "1940 Act"), to meet minimum asset coverage requirements.

See "Investment Objective and Policies -- Rating Agency Guidelines and Asset Coverage Requirements."

DIVIDENDS AND DISTRIBUTIONS............. Prior to the issuance of auction rate preferred stock, the Fund expects to distribute through the year, primarily in the form of regular monthly dividends, substantially all (on an annual basis) of its net investment income (that is, income other than net realized long-term and short-term capital gains) and its net realized short-term capital gains, if any. Dividends to Common Stock shareholders are expected to be declared approximately 45 days, and paid approximately 60-90 days, after the completion of the offering of shares of Common Stock.

If the auction rate preferred stock is issued, the Internal Revenue Service requires the Fund to allocate particular types of income received by it for any taxable year, including income that qualifies for the DRD and that which does not, between shares of Common Stock and shares of the Fund's auction rate preferred stock outstanding in proportion to the total amount of distributions paid to each such class of shares for such taxable year. The Fund's dividends will be eligible for the DRD to the extent that such dividends are designated by the Fund as qualifying for such deduction. Common Stock shareholders who are individuals or Subchapter S corporations are not eligible for the DRD. See "Taxation."

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN....................... Under the Fund's Dividend Reinvestment and Cash Purchase Plan, a Common Stock shareholder whose shares are registered in his or her own name may elect to have all dividends or distributions with respect to his or her shares of Common Stock reinvested automatically in additional shares of the Fund's Common Stock, rather than receive distributions in cash. In addition, a Common Stock shareholder whose shares are held in the name of a broker/dealer or nominee may elect to have distributions reinvested automatically by the broker/dealer or nominee in additional shares of Common Stock under the plan rather than receive distributions in cash, unless that service is not provided by the broker/dealer or nominee. If such service is not available, distributions will be paid in cash. A Common Stock shareholder whose shares are held in the name of a broker/dealer or nominee should contact his or her respective broker/dealer or nominee for details. See "Description of Capital Stock -- Dividend Reinvestment and Cash Purchase Plan" and "Taxation."

RISK FACTORS AND SPECIAL CONSIDERATIONS...................... Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you invest in shares of the Fund's Common Stock:

Interest Rate Risk Changes in the level of interest rates are expected to affect the value of the Fund's portfolio holdings of fixed rate securities, inverse floating rate securities, and, under certain circumstances, its holdings of adjustable rate securities. Subject to certain limitations described herein, the Fund currently anticipates hedging, from time to time, some or all of its holdings of fixed rate, inverse floating rate, and adjustable rate securities, for

the purposes of (1) protecting against declines in value attributable to significant increases in interest rates in general and (2) providing increased income in the event of significant increases in interest rates while maintaining the Fund's relative resistance to a reduction in income in the event of significant declines in interest rates. There can be no guarantee that such hedging strategies will be successful. Significant changes in the interest rate environment, as well as other factors, may cause the Fund's holdings of preferred and debt securities to be redeemed by the issuers, thereby reducing the Fund's holdings of higher income-paying securities at a time when the Fund may be unable to acquire other securities paying comparable income rates with the redemption proceeds. In addition to fluctuations due to changes in interest rates, the value of the Fund's holdings of preferred and debt securities, and as a result the Fund's net asset value, may also be affected by other market and credit factors, as well as by actual or anticipated changes in tax laws. See "Investment Objective and Policies -- Risk Factors and Special Considerations."

Hedging Strategy Risk Certain of the investment techniques that the Fund may employ for hedging or, under certain circumstances, to increase income will expose the Fund to risks. In addition to the hedging techniques described elsewhere, i.e., positions in Treasury Bond or Treasury Note futures contracts, use of options on these positions, positions in interest rate swaps, and options thereon ("swaptions"), these investment techniques may include entering into interest rate and stock index futures contracts and options on interest rate and stock index futures contracts, purchasing and selling put and call options on securities and stock indices, purchasing and selling securities on a when-issued or delayed delivery basis, entering into repurchase agreements, lending portfolio securities and making short sales of securities "against the box." The Fund intends to comply with regulations of the Commission involving "covering" or segregating assets in connection with the Fund's use of options and futures contracts. See "Investment Objective and Policies -- Investment Techniques."

-10-

Leverage Risk Risks affecting the Fund's net asset value will be magnified if and when the Fund issues the auction rate preferred stock. If the Fund's current net investment income and capital gains are not sufficient to meet dividend requirements on outstanding shares of auction rate preferred stock and to pay additional distributions, the Fund may need to liquidate certain of its investments, thereby possibly reducing the net asset value attributable to the Common Stock. In addition, failure to meet required asset coverage for shares of auction rate preferred stock or to satisfy certain guidelines established by Moody's may result in mandatory partial or full redemptions of shares of auction rate preferred stock, which would reduce or eliminate the Fund's leverage and could also adversely affect distributions to holders of the Common Stock. Such redemptions may also cause the Fund to incur additional transaction costs, including costs associated with the sale of portfolio securities. See "Special Leverage Considerations" and "Description of Capital Stock."

Industry Concentration Risk The Fund concentrates its investments in the utilities and banking industries. As a result, the Fund's investments may be subject to greater risk and market fluctuation than a fund that had securities representing a broader range of investment alternatives. See "Investment Objective and Policies -- Concentration."

Preferred Securities Risk Investment in preferred securities carries certain risks including;

- Deferral Risk- Typically preferred securities contain provisions that allow an issuer, at its discretion, to defer distributions for up to 20 consecutive quarters. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for tax purposes while it is not receiving any income.

- Redemption Risk- Preferred securities typically contain provisions that allow for redemption in the event of tax or security law changes in addition to call features at the option of the issuer. In the event of a redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return.

- Limited Voting Rights- Preferred securities typically do not provide any voting rights.

No Operating History The Fund is a newly organized, closed-end investment company with no previous operating history. Shares of closed-end investment companies frequently trade at discounts from net asset value, especially shortly after the completion of the initial public offering. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that the fund's net asset value may decrease. The Fund cannot predict whether the Common Stock will trade at, above or below net asset value. The risk of purchasing shares of closed-end funds that may trade at a discount is more pronounced for investors who wish to sell their shares in a relatively short period of time after the initial public offering. For those investors, realization of gain or loss on their investment is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. The net asset value per share of the Common Stock immediately following the completion of the offering described in this Prospectus will be the initial offering price per share of $15.00 minus the sales load and other per share offering expenses. See "Investment Objective and Policies -- Risk Factors and Special Considerations."

Conversion Risk Under the Fund's Bylaws, if at any time after the third year following the offering made hereby, shares of the Common Stock publicly trade for a substantial period of time at a significant discount from the Fund's then current net asset value per share, the Board of Directors of the Fund is obligated to consider taking various actions designed to reduce or eliminate the discount, including recommending to shareholders amendments to the Articles to convert the Fund to an open-end investment company, which would result in the redemption of shares of auction rate preferred stock then outstanding and the potential subsequent sale of Fund assets during unfavorable market conditions. In addition, the Board may consider taking actions designed to eliminate the discount whenever it deems it to be appropriate. See "Repurchase of Common Stock and Tender Offers; Conversion to Open-End Fund."

Anti-Takeover Provisions The Fund's Articles of Incorporation and Bylaws include provisions that could have the effect of inhibiting the Fund's possible conversion to open-end status and limiting the ability of other entities or persons to acquire control of the Fund's Board of Directors. In certain circumstances, these provisions might also inhibit the ability of shareholders to sell their shares at a premium over prevailing market prices. See "Certain Provisions of the Articles of Incorporation."

Tax Considerations The DRD is currently 70% of the amount of the dividends received. Corporate shareholders of the Fund should consider the effect on the DRD of the more than 45-day holding period requirement of Section 246(c) of the Code, the overall limitation on the amount of the DRD which is available to a corporate owner of the Fund's shares and the rules in Section 246A that reduce the DRD for debt-financed holdings of portfolio stock. See "Investment Objective and Policies -- Risk Factors and Special Considerations."

STOCK PURCHASES AND TENDERS............ The Fund's Board of Directors currently contemplates that the Fund, at least once each year, may consider repurchasing shares of Common Stock in the open market or in private transactions, or tendering for shares, in an attempt to reduce or eliminate a market value discount from net asset value, if one should occur. Upon the issuance of auction rate preferred stock, the Fund's ability to repurchase shares of, or tender for, its Common Stock may be limited by the asset coverage requirements of the 1940 Act and by asset coverage and other requirements imposed by Moody's as a condition to rating the auction rate preferred stock. No assurance can be given that the Board of Directors will decide to undertake share repurchases or tenders or, if undertaken, that repurchases and/or tender offers will result in the Fund's Common Stock trading at a price that is close to, equal to or above net asset value. The Fund may borrow to finance repurchases and/or tender offers. See "Repurchase of Common Stock and Tenders Offers; Conversion to Open-End Fund."

CUSTODIAN, TRANSFER AGENT AND DIVIDEND-PAYING AGENT AND REGISTRAR........................... __________________ serves as the Fund's custodian. ____________ serves as the Fund's transfer agent, dividend-paying agent and registrar for the Common Stock. See "Custodian, Transfer Agent and Dividend-Paying Agent and Registrar."

-14-

FEE TABLE

The following table sets forth certain fees and expenses of the Fund.

SHAREHOLDER TRANSACTION EXPENSES

Sales Load (as a percentage of offering price)..

ANNUAL EXPENSES (as a percentage of net assets attributable to common shares)
Management Fees...

Other Expenses..	
TOTAL ANNUAL EXPENSES..	

EXAMPLE	1 YEAR
You would pay the following expenses on a $1,000 investment assuming a 5% annual return...	$

THE PURPOSE OF THE FOREGOING TABLE AND EXAMPLE IS TO ASSIST AN INVESTOR IN UNDERSTANDING THE VARIOUS COSTS AND EXPENSES THAT AN INVESTOR IN THE FUND BEARS, DIRECTLY OR INDIRECTLY, BUT SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OR RATES OF RETURN. THE ACTUAL EXPENSES OF THE FUND MAY BE GREATER OR LESS THAN THOSE SHOWN. The figures provided under "Other Expenses" are based upon estimated amounts for the current fiscal year. For more complete descriptions of certain of the Fund's cost and expenses, see "Management of the Fund" in this Prospectus.

-15-

THE FUND

The Fund is a newly organized, closed-end, diversified management investment company. The Fund's investment objective is high current income for holders of its Common Stock consistent with preservation of capital. The Adviser pursues strategies that it expects generally to result in the Fund's income increasing in response to significant increases in interest rates while being relatively resistant to the impact of significant declines in interest rates. In seeking its objective, the Fund normally will invest at least 80% of its total net assets in a diversified portfolio of preferred securities. These preferred securities consist primarily of fixed rate, adjustable rate and inverse floating rate securities, some or all of which are expected to be hedged. The Fund, which was incorporated under the laws of the State of Maryland on May 23, 2002, is registered under the 1940 Act and has its principal office at 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101. The Fund's telephone number is (626) 795-7300.

The Fund is authorized to issue both Common Stock and preferred stock. Within three months after the completion of the offering described in this Prospectus, the Fund intends, subject to then favorable market conditions, to offer shares of auction rate preferred stock in one or more series representing approximately 37% of the Fund's capital immediately following the issuance of those shares. The issuance of auction rate preferred stock is intended to occur as soon as practicable after the proceeds of this offering are invested. The Fund anticipates that the dividends it will pay on the auction rate preferred stock will typically reflect shorter-term rates, while the net return on the Fund's portfolio, including proceeds of the auction rate preferred stock offering, will exceed the dividends paid on the auction rate preferred stock and any Additional Distributions paid, although there can be no guarantee that this will occur. The effect of this two-class or leveraged capital structure of the Fund will be to provide Common Stock shareholders with an opportunity to realize a higher level of income than would be provided by an investment company having a similar investment portfolio and an unleveraged capital structure. Leverage will, however, create additional risks for the Common Stock shareholders, including the risk that fluctuations in the dividend rates on the auction rate preferred stock may affect the yield to the Common Stock shareholders and the risk of potentially higher volatility of the net asset value and market value of shares of Common Stock. See "Special Leverage Considerations."

USE OF PROCEEDS

The net proceeds of the offering of shares of Common Stock will be approximately $ ($ if the Underwriters exercise the over-allotment option in full) after payment of the sales load and organizational and offering costs. The net proceeds of the offering will be invested in accordance with the Fund's investment objective and policies (as stated below) as soon as practicable after completion of the offering. The Fund currently anticipates being able to do so within three months after the completion of the offering. Pending investment of the net proceeds in accordance with the Fund's investment objectives and policies, the Fund will invest in money market securities or money market mutual funds. Investors should expect, therefore, that before the Fund has fully invested the proceeds of the offering in accordance with its investment objective and policies, the Fund's yield would be somewhat lower, but that its net asset value would be subject to less fluctuation, than would be the case at such time as the Fund is fully invested.

For the benefits of leverage to be realized by Common Stock shareholders, the proceeds of both the Fund's Common Stock and the auction rate preferred stock offerings must be invested in securities that provide a higher net return than the rate of return based on the then current dividends paid on the auction rate preferred stock. Based on current and historical relationships between short-term, intermediate-term and long-term yields, during the relatively short period after the auction rate preferred stock has been issued but before the proceeds of that offering have been fully invested in accordance with the Fund's investment objective and policies, the Fund will probably not be able to earn a sufficiently high return on its investments to permit leverage to be of benefit to Common Stock shareholders. However, before authorizing the issuance of the auction rate preferred stock, the Board of Directors of the Fund will consider the length of time expected to be necessary to invest the proceeds of the auction rate preferred stock offering in an effort to maximize the benefits of leverage to Common Stock shareholders. See "Special Leverage Considerations."

INVESTMENT OBJECTIVE AND POLICIES

GENERAL

The Fund's investment objective is high current income for holders of its Common Stock consistent with preservation of capital. The Fund's investment objective may not be changed without the approval of the holders of at least 80% of the Fund's outstanding voting securities (as defined below under "Investment Restrictions"), voting as a single class, at least 80% of the Fund's outstanding shares of auction rate preferred stock (as defined below under "Investment Restrictions"), voting as a separate class and at least 80% of the entire Board of Directors. See "Description of Capital Stock -- Preferred Stock -- Voting Rights" for additional information with respect to the voting rights of holders of shares of auction rate preferred stock. No assurance can be given that the Fund's investment objective will be achieved.

The Fund pursues its investment objective by investing in a diversified portfolio primarily consisting of preferred securities. In seeking its objective, the Fund will normally invest at least 80% of its total net assets in a diversified portfolio of preferred securities.

In selecting individual securities for investment, the Adviser considers, among other things, current yield, price variability and the underlying fundamental characteristics of the issuer, with particular emphasis on debt and dividend coverage and the potential for the timely payment of dividends and interest. It is expected that the Fund's assets will be invested primarily in fixed rate, adjustable rate, and inverse floating rate preferred securities. The Fund may invest in other types of preferred securities -- such as auction rate preferred stocks and convertible preferred stocks -- as well as debt and common equity securities in appropriate circumstances. The Adviser currently anticipates using various "safety-net" hedging techniques, including (1) entering into futures contracts and options on futures contracts and (2) entering into interest rate swap positions and options thereon ("swaptions"), from time to time for the purpose of hedging some or all of its preferred securities and debt holdings. There is no limit on the portion of the Fund's assets that can be hedged, subject to compliance with applicable laws and regulations, as well as restrictions imposed in connection with the rating of the Fund's auction rate preferred stock. The Fund may invest up to 5% of its assets in each of options on securities and options on

-2-

stock indices, up to 10% of its assets in each of initial margin deposits on futures contracts and premiums paid for options thereon, and up to 5% of its assets for time premiums paid for swaptions. However, under current market conditions, it is expected that up to an aggregate of 15% of the Fund's assets could be invested in options on securities and stock indices, initial margin deposits and option premiums paid in connection with futures transactions, and initial margin deposits and options premiums paid in connection with interest rate swaps and swaptions. (See "Investment Techniques -- Futures Contracts and Options on Futures Contracts" for a discussion of the limitations and risks associated with investments in futures contracts and options on futures contracts. See also "Investment Techniques -- Interest Rate Swaps and Options Thereon ("Swaptions")" for a discussion of the limitations and risks associated with positions in interest rate swaps and options thereon.) The portion of the Fund's assets not invested in preferred securities and hedging instruments may be invested in, among other securities, money market instruments, money market mutual funds, corporate debt securities, asset-backed securities, and securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities ("Government Securities"), which, depending on market conditions, may at times have a higher or lower yield than preferred securities in which the Fund invests. Under normal conditions, the Fund's investments in such debt securities is limited to 20% of its assets. Under normal conditions, the Fund may also invest up to 15% of its assets in common stocks or convertible securities which trade in close relationship to their underlying associated common stocks.

PORTFOLIO STRATEGIES

The Adviser believes that the pursuit of the strategies described below will result in a high level of current income to the Fund's Common Stock consistent with the preservation of capital. Furthermore, that income is expected by the Adviser to increase in response to significant increases in interest rates while being relatively resistant to the impact of significant declines in interest rates due to (1) the composition of fixed rate, adjustable rate, and inverse floating rate securities owned, (2) the maintenance of certain hedging positions against some or all of the Fund's holdings of preferred and debt securities, from time to time, and (3) the intended leveraging of the Fund through the issuance of auction rate preferred stock.

Coupon rates on fixed rate preferred and debt securities held by the Fund, as their name implies, would be fixed regardless of the direction of interest rates. In addition, the market prices of such securities would tend to (1) decline as interest rates rose and (2) rise as interest rates fell. Coupon rates on inverse floating rate securities tend to rise as interest rates decline and fall, possibly to zero, as interest rates rise. Consequently, their prices are more apt to appreciate, as interest rates fall, and depreciate, as interest rates rise, than a fixed rate security paying a comparable initial income stream. Adjustable rate securities pay income that generally rises as interest rates rise and falls as interest rates decline, often subject to minimum income floors and maximum income ceilings (often called "collars"). All other things being equal, adjustable rate preferreds will tend to have somewhat less price variability than would either fixed rate or inverse floating rate securities of comparable maturity. Nevertheless, changing interest rate conditions may still affect adjustable rate preferred stocks' principal value, which may expose the Fund to risk of loss. See "Investment Objective and Policies -- Risk Factors and Special Considerations -- Fluctuation in Share Price."

-3-

The Fund normally anticipates hedging some or all of the interest rate exposure inherent in its holdings of these different types of preferred and debt securities. Under current market conditions, this hedging would be accomplished principally by one or more of the following strategies: (1) purchasing put options (called a "long position in a put option") on Treasury Bond and/or Treasury Note futures contracts, (2) entering into futures contracts to sell Treasury Bonds and/or Treasury Notes (called a "short position in a futures contract"), (3) entering into interest rate swap agreements as a "fixed rate payer", and/or (4) purchasing options to enter into interest rate swap agreements as a "fixed rate payer" (called a "pay fixed swaption").

The hedging positions that the Fund currently expects to hold normally appreciate in value when interest rates rise significantly, reflecting either the expected rise in yields of Treasury securities or interest rate swap yields, as applicable, and the associated decline in the prices of underlying Treasury securities or decreased net market value of an obligation to pay a fixed income stream in a higher interest rate environment.

Conversely, such hedging positions would normally depreciate in value when interest rates fall significantly. A short position in a Treasury Bond or Treasury Note futures contract should reflect directly changes in the price of that futures contract, i.e., benefiting from price declines and being adversely affected by price increases. Further, the value of a long position in a put option on a Treasury Bond or Treasury Note futures contract should rise and fall in inverse relationship to the market price of that futures contract, but the magnitude of the change in value would to a large extent depend upon whether and the extent to which the exercise price of the put option was below ("out-of-the-money") or above ("in-the-money") the price of the futures contract.

Similarly, a "pay-fixed" position in an interest rate swap should directly reflect changes in the level of interest rate swap yields. Also, the value of an option to pay fixed rate in an interest rate swap, i.e., a pay-fixed swaption, will rise or fall in direct relationship to a pay-fixed interest rate swap's value, but the magnitude of the value change would, to a large extent, depend on whether and the extent to which the exercise yield of the pay-fixed swaption was above ("out-of the-money") or below ("in-the-money") the existing level of interest rate swap yields. A more specific explanation of options and swaptions follows.

Should the Fund purchase an out-of-the-money put option on a Treasury Bond or Treasury Note futures contract as part of its hedging strategies, that put option would be expected to have value at its expiration date only if the price of the underlying futures contract declined below the exercise price of the put option. Accordingly, interest rates could generally increase moderately, and a decline in value of the Fund's preferred and debt holdings could result without the Fund receiving any offsetting benefit from its holdings of such put options. The Fund would achieve a gain on a long position in an out-of-the-money put option on a Treasury Bond or Treasury Note futures contract at the time of its expiration only if interest rates were to increase significantly so as to result in a decline in the price of the underlying futures contract sufficient to cause the value of such put option at expiration to exceed the premiums paid by the Fund to acquire it (plus transaction costs).

Should the Fund acquire an in-the-money put option on a Treasury Bond or Treasury Note futures contract as part of its hedging strategies and should interest rates generally increase subsequently, the value of that put option at the time of its expiration would normally reflect favorably any decline in the market price of the underlying futures contract. However, the premium paid to acquire such in-the-money put option would have reflected the exercise value already present in the option at the time of purchase, and therefore, the premium would normally be higher than that paid for an out-of-the-money put option. Furthermore, the value of an in-the-money put option would be adversely impacted directly by an increase in the price of the underlying Treasury Bond or Treasury Note futures contract which could result from a decline in interest rates. The Fund has traditionally hedged using put options on Treasury Bonds or Treasury Note futures contracts that were, at the time of purchase, out-of-the-money.

An interest rate swap is an agreement between two parties where one party agrees to pay a contractually stated fixed income stream, usually denoted as a fixed percentage of an underlying "notional" amount, in exchange for receiving a variable income stream, usually based on LIBOR, and denoted as a percentage of the underlying notional amount. From the perspective of a fixed rate payer, if interest rates rise, the payer will expect a rising level of income since the payer is a receiver of floating rate income. This would cause the value of the swap contract to rise in value, from the payer's perspective, because the discounted present value of its obligatory payment stream is diminished at higher interest rates, all at the same time it is receiving higher income. Alternatively, if interest rates fall, the reverse occurs and the payer simultaneously faces the prospects of both a diminished floating rate income stream and a higher discounted present value of his fixed rate payment obligation. For purposes of completing the analysis, these value changes all work in reverse from the perspective of a fixed rate receiver.

The use of pay fixed swaptions is, in many key respects, analogous to the treatment of put options on futures contracts of Treasury securities. If the Fund should buy an option to pay fixed in an interest rate swap at an exercise yield above current market levels, such pay fixed swaption is deemed out-of-the-money. Conversely, if the Fund should buy a pay fixed swaption with an exercise yield below the current market level of interest rate swap yields, such pay fixed swaption is considered in-the-money.

Should the Fund purchase an out-of-the-money pay fixed swaption as part of its hedging strategies, that pay fixed swaption would be expected to have value at its expiration date only if the then prevailing level of interest rate swap yields was in excess of the exercise yield specified in the pay fixed swaption. Accordingly, interest rates could generally increase moderately, and a decline in value of the Fund's preferred and debt holdings could result without the Fund receiving any offsetting benefit from its holdings of such pay fixed swaptions. The Fund would achieve a gain on its holding of an out-of-the-money pay fixed swaption at the time of its expiration only if interest rates were to increase significantly so as to result in a rise in value from the perspective of a fixed rate payer sufficient to exceed the premiums paid by the Fund to acquire the pay fixed swaption (plus transaction costs).

Should the Fund acquire an in-the-money pay fixed swaption as part of its hedging strategies and should interest rates generally increase subsequently, the value of that pay fixed swaption at the time of its expiration would normally reflect favorably any rise in value of the underlying interest rate swap from the perspective of a fixed rate payer. However, the

premium paid to acquire such in-the-money pay fixed swaption would have reflected the exercise value already present in the option at the time of purchase, and therefore, the premium would normally be higher than that paid for an at-the-money or out-of-the-money pay fixed swaption. Furthermore, the value of an in-the-money pay fixed swaption would be adversely impacted directly by a decrease in the yield of the underlying interest rate swap contract, which could result from a general decline in the level of interest rates.

In any event, the maximum loss that might be incurred on a long position in either a put option on a Treasury futures contract or a pay-fixed swaption would be limited to the premium paid for the purchase of such option or swaption (plus transaction costs).

The response of the Fund's income to changes in interest rates will be impacted by the effectiveness of its hedging strategies. In order for the Fund's income from its holdings of fixed rate and inverse floating rate securities to increase as interest rates rise, the Fund must achieve gains on its hedging positions. These gains can be used to acquire additional shares of preferred or debt securities, which in turn would generate additional dividend or interest income. In the case of generally rising interest rates, the gains potentially achievable by the Fund from hedge instruments will be reduced by the premiums paid for the purchase of options and swaptions and to the extent that such options and swaptions held are out-of-the-money when purchased. In order for the Fund's income to be relatively resistant to significant declines in interest rates, the Fund must have limited exposure to the magnitude of losses on hedge instruments which would occasion the sale of some of its holdings of securities in order to cover such hedging losses and related costs. The Fund's exposure to losses on hedge instruments in the event of generally declining interest rates will be greater to the degree it holds (a) short positions in futures contracts, pay fixed interest rate swaps, and long positions in-the-money put options or swaptions rather than (b) out-of-the-money put options or swaptions.

There are economic costs of hedging reflected in the pricing of futures, swaps, options, and swaption contracts which can be significant, particularly when long-term interest rates are substantially above short-term interest rates, as is the case at present. The desirability of moderating these hedging costs will be a factor in the Adviser's choice of hedging strategies, although costs will not be the exclusive consideration in selecting hedge instruments. Although appreciation is not a focus of the Fund, the Fund may select individual investments based upon their potential for appreciation without regard to the effect on current income, in an attempt to mitigate the impact on the Fund's assets of the expected normal cost of hedging.

The Fund's use of hedging instruments and the availability of gains for investment in additional shares of preferred and debt securities may be limited by the restrictions and distribution requirements imposed on the Fund under certain regulations of the Commodity Futures Trading Commission ("CFTC") and in connection with its qualification as a regulated investment company under the Code. See "Investment Techniques" below and "Taxation." The Adviser does not believe that these restrictions and requirements will materially adversely affect the management of the Fund or the ability of the Fund to achieve its investment objective.

There may be an imperfect correlation between changes in the value of the Fund's portfolio holdings and hedging positions entered into by the Fund, which may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. In addition, the Fund's

success in using hedge instruments is subject to the Adviser's ability to predict correctly changes in the relationships of such hedge instruments to the Fund's portfolio holdings, and there can be no assurance that the Adviser's judgment in this respect will be accurate. Consequently, the use of hedging transactions might result in a poorer overall performance for the Fund, whether or not adjusted for risk, than if the Fund had not hedged its portfolio holdings.

The auction rate preferred stock which the Fund expects to issue will have dividend rates established by auctions which will typically be held at regular 49 day or other short intervals. This auction process is designed to result in a high degree of principal stability for holders of the Fund's auction rate preferred stock. The dividend rates set pursuant to such auction process are expected to be influenced by short-term interest rates generally, so that the dividend rate on the Fund's auction rate preferred stock outstanding is expected to increase as short-term interest rates rise and to decline as short-term interest rates fall.

In the event of an equal rise in long-term and short-term interest rates from current levels, the additional income anticipated to be received from the investment of gains on appreciated hedging positions (assuming a significant rise in interest rates) when coupled with the net impact of increasing income from adjustable rate securities offset by decreasing income from inverse floating rate securities, would tend to more than offset the expected increased dividend rate payable on the Fund's auction rate preferred stock outstanding. Thus, net income to the Common Stock is expected to rise in response to significant increases in interest rates as described herein.

In the event of equal declines in long-term and short-term interest rates from current levels, losses on hedge positions would be expected to result, possibly requiring the sale of some of the Fund's securities holdings and decreasing the Fund's investment income, although such hedging losses would be limited to the amount of the premiums paid (plus transaction costs) to the extent that the Fund hedged with long positions in put options or swaptions as described above. Furthermore, the existence of income floors on adjustable rate securities and holdings of inverse floating rate securities would mitigate the downward pressure on Fund income, to the degree the Fund has holdings of such securities. In addition, lower interest rates would be expected to result in a lower dividend rate on the Fund's auction rate preferred stock outstanding, which would increase net investment income available to Common Stock.

However, in declining interest rate environments, issuers may call for redemption those preferred and debt securities which have coupon rates above prevailing rates. This would reduce the Fund's income since preferred and debt securities paying comparable yields would not be available to be purchased with the redemption proceeds. The combined impact of the limitation of hedge losses through the use of options hedges, lower collars on adjustable rate securities, holdings of inverse floating rate securities, and the decline in the cost of the Fund's auction rate preferred stock outstanding, in the opinion of the Adviser, should contribute to the net income to the Fund's Common Stock being relatively resistant to equal declines in long-term and short-term interest rates, subject to the adverse impact of redemptions of the Fund's higher yielding preferred and debt securities in the event of substantial declines in interest rates.

If short-term interest rates were to rise while long-term rates remained unchanged, the cost of the Fund's outstanding auction rate preferred stock would be expected to rise while coupon rates on the Fund's holdings of fixed rate and adjustable rate securities would remain unchanged (with certain exceptions in the case of adjustable rate securities whose income would rise if short term rates were to exceed long term rates by a sufficiently wide margin). See "Investment Objective and Policies -- Portfolio Investments -- Adjustable Rate Preferred Stock." The income from inverse floating rate securities would be expected to decline.

However, such a hypothesized change in the relationship between short-term and long-term rates also would be expected to reduce the cost of hedging preferred and debt securities, regardless of whether such hedges were in futures contracts, interest rate swaps, long positions in put options, or holdings of pay fixed swaptions. The combined impact of the foregoing factors on the Fund's net income would depend in large measure on the relative size of the Fund's holdings of hedged preferred and debt securities and the hedging instruments utilized.

In the opposite case, namely, a decline in short-term rates with long-term rates remaining unchanged, the income from fixed rate and, for the most part, adjustable rate securities would be unaffected, while the income from inverse floating rate securities would be expected to increase. Under certain circumstances, the income from adjustable rate securities may be adversely affected. The cost of the Fund's outstanding auction rate preferred stock would be expected to fall. On balance, these various movements would contribute to a higher net return to the Fund. However, in this interest rate environment, there would be an expected increase in the cost of hedging preferred and debt securities. The combined impact of the foregoing factors on the Fund, as under the scenario described in the preceding paragraph, would depend in large measure on the relative size of the Fund's holdings of different types of securities and the hedge instruments utilized.

The portions of the Fund's assets invested in various types of preferred and debt securities may vary from time to time. The portion of the Fund's securities that will be hedged and the types of hedge positions held may also vary significantly from time to time. There can be no assurance that the Fund will seek to hedge its entire portfolio of preferred and debt securities or that, if such hedging strategies were undertaken, they would be successful (1) in protecting against declines in value attributable to rising interest rates in general, and/or (2) in providing increased income in the event of significant increases in interest rates while maintaining the Fund's relative resistance to declines in income in the event of significant declines in interest rates.

PORTFOLIO INVESTMENTS

Under normal market conditions, the Fund will invest at least 80% of its total net assets in preferred securities, including (a) preferred and preference stock and other analogous equity securities senior to common equity and (b) hybrid, or fully taxable preferred securities that meet the following criteria: (1) the issuer has the ability to defer payments for a minimum period of eighteen months without triggering an event of default and (2) the security is a junior and fully subordinated liability of an issuer or the beneficiary of a guarantee that represents a junior and fully subordinated liability of the guarantor. Hybrid securities that do not meet these criteria will be considered debt securities.

-8-

Preferred/preference stock is, with common stock, one of the two major types of equity securities. Generally, preferred/preference stock receives dividends prior to distributions on common stock and usually has a priority of claim over common stockholders if the issuer of the stock is liquidated. The income paid by an issuer to holders of its preferred/preference and common stocks is typically eligible for the DRD. Unlike common stock, preferred stock does not usually have voting rights; preferred/preference stock, in some instances, is convertible into common stock.

Preferred/preference securities have certain characteristics of both debt and common equity securities. They are debt-like to the extent that their promised income is contractually fixed. They are common equity-like since they do not have rights to precipitate bankruptcy filings or collection activities in the event of missed payments. Furthermore, they have many of the key characteristics of equity due to their subordinated position in an issuer's capital structure and because their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows.

"Hybrid" or taxable preferred securities are not eligible for the DRD and are not legally considered equity of an issuer. They are typically junior and fully subordinated liabilities of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. In addition, hybrids typically permit an issuer to defer the payment of income for eighteen months or more without triggering an event of default. Generally, the deferral period is 5 years. Because of their subordinated position in the capital structure of an issuer, the ability to defer payments for extended periods of time without adverse consequence to the issuer, and certain other features (such as restrictions on common dividend payments by the issuer or ultimate guarantor when cumulative payments on the hybrids have not been made), these issues are often treated as close substitutes to traditional preferred securities, both by issuers and investors. Hybrid securities are also treated in a similar fashion to traditional preferred/preference stocks by several regulatory agencies, including the Federal Reserve Bank, and by credit rating agencies, for various purposes, such as the assignment of minimum capital ratios, over-collateralization rates and diversification limits. As is also true of preferred/preference stock, hybrids have many of the key characteristics of equity due to their subordinated position in an issuer's capital structure and because their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows. Hybrid securities have been marketed under a variety of names, including, but not limited to TOPrS, TIPS, QUIPS, MIPS, QUIDS, QUICS, STOPS, CorTS and Capital Securities. As with traditional preferred/preference stocks, hybrid or taxable preferreds may be convertible into underlying common stock of the issuer or associated grantor.

Perpetual preferred/preference stocks are issued with no mandatory retirement provisions, but typically are callable after a period of time at the option of the issuer. No redemption can occur if full cumulative dividends have not been paid, although issuers may be able to engage in open-market repurchases without regard to any cumulative dividends payable. Sinking fund preferred/preference stocks provide for the redemption of a portion of the issue on a regularly scheduled basis with, in most cases, the entire issue being retired at a future date.

Hybrid preferreds are typically issued with a final maturity date, although, in certain instances the date may be extended and/or the final payment of principal may be deferred

at the issuer's option for a specified time without any adverse consequences to the issuer. No redemption can typically take place unless all cumulative payment obligations have been met, although issuers may be able to engage in open-market repurchases without regard to any cumulative dividends payable.

In order to be payable, dividends on preferred/preference stock must be declared by the issuer's board of directors. In addition, distributions on hybrid securities are also subject to deferral and are thus not automatically payable. Income payments on the typical preferred securities currently outstanding are cumulative, causing dividends and distributions to accrue even if not declared by the board of directors or otherwise made payable. There is, of course, no assurance that dividends or distributions on the preferred securities in which the Fund invests will be declared or otherwise made payable. The Fund may acquire non-cumulative preferred securities subject to the restrictions on quality adopted by the Fund, although the Adviser would consider, among other things, their non-cumulative nature in making any decision to purchase or sell such securities.

Shares of preferred securities have a liquidation value that generally equals the original purchase price at the date of issuance. The market values of preferred securities may be affected by favorable and unfavorable changes impacting companies in the utilities and banking industries, which are prominent issuers of preferred securities (See "Investment Objective and Policies -- Concentration" below), and by actual and anticipated changes in tax laws, such as changes in corporate income tax rates and in the DRD.

Because the claim on an issuer's earnings represented by preferred/preference stocks and hybrid securities may become onerous when interest rates fall below the rate payable on the stock or for other reasons, the issuer may redeem the securities. Thus, in declining interest rate environments in particular, the Fund's holdings of higher coupon-paying preferred/preference and hybrid securities may be reduced and the Fund would be unable to acquire securities paying comparable coupons with the redemption proceeds.

From time to time, preferred securities issues have been, and may in the future be, offered having features other than those described below that are typical for fixed rate, adjustable rate, inverse floating rate, or auction rate preferred securities. The Fund reserves the right to invest in these securities if the Adviser believes that doing so would be consistent with the Fund's investment objective and policies. Since the market for these instruments would be new, the Fund may have difficulty disposing of them at a suitable price and time. In addition to limited liquidity, these instruments may present other risks, such as high price volatility. The Adviser believes that the unavailability of such innovative securities would not adversely affect the Fund's ability to achieve its investment objective.

Credit Quality. Preferred and debt securities that the Fund will acquire will be rated investment grade (at least "Baa3" by Moody's or "BBB-" by S&P) at the time of investment or will be securities of issuers whose senior debt is rated investment grade by Moody's or S&P at the time of investment. In addition, the Fund may acquire unrated issues that the Adviser deems to be comparable in quality to rated issues in which the Fund is authorized to invest. The Fund will limit to 20% of its assets the portion of its portfolio invested in preferred and debt securities rated below investment grade (which securities must be rated at least "Ba3"

by Moody's or "BB-" by S&P at the time of purchase) or judged to be comparable in quality at the time of purchase; however, any such securities must be issued by an issuer having a class of senior debt rated investment grade outstanding. Securities rated "Baa" by Moody's or "BBB" by S&P, although investment grade, are considered to have speculative characteristics, and securities rated "Ba" or "BB" are believed to have speculative elements and a greater vulnerability to default than higher-rated securities. Moody's and S&P may modify certain letter ratings of securities with the addition of a plus or a minus sign or other modifier in order to show relative standing within the rating category.

References to a particular letter rating in this Prospectus may or may not be to the rating with or without regard to any specific modifiers as the context requires.

The ratings of Moody's and S&P represent their opinions as to the quality of the securities that they undertake to rate; the ratings are relative and subjective and are not absolute standards of quality. The Adviser's judgment as to credit quality of a security, thus, may differ from that suggested by the ratings published by a rating service. A description of ratings by Moody's and S&P relevant to the Fund's investments is included in Appendix A to this Prospectus. The policies of the Fund described above as to ratings of portfolio investments apply only at the time of the purchase of a security, and the Fund is not required to dispose of a security in the event Moody's or S&P downgrades its assessment of the credit characteristics of the security's issuer, although standards for rating the Fund's auction rate preferred stock imposed by Moody's may result in the Fund's disposing of securities that are downgraded.

Traditional Fixed Rate Preferred Stock. Traditional fixed rate preferred stocks have fixed dividend rates for the life of the issue and typically pay dividends that qualify for the DRD. They can be perpetual with no maturity date or subject to mandatory redemptions such as through a sinking fund. The category of fixed rate preferred stocks also includes a variety of innovative securities as well as certain convertible preferred securities. Certain fixed rate preferred stocks have features intended to provide some degree of price stability. These features may include an auction mechanism at some specified future date. The auction feature is normally intended to enhance the probability that a preferred stock shareholder will be able to dispose of his holdings close to a pre-specified price, typically equal to par or stated value. Other price stability mechanisms include convertibility into an amount of common equity of the same issuer at some specified future date, typically in amounts not greater than par value of the underlying preferred stocks. Another common form of fixed rate preferred stock is the traditional convertible preferred stock, which permits the holder to convert into a specified number of shares at the holder's option at any time prior to some specified date. Innovative preferred stock and traditional convertible preferred stock are often less liquid than the conventional fixed rate preferred stock. The Fund's ability to achieve its investment objective is not dependent on the availability of such innovative or convertible preferred stocks.

Adjustable Rate Preferred Stock. Unlike traditional fixed rate preferred stocks, adjustable rate preferred stocks are preferred stocks that have a dividend rate that adjusts periodically to reflect changes in the general level of interest rates. (Like traditional fixed rate preferred stocks, these issues typically pay dividends that qualify for the DRD.) The adjustable dividend rate feature is intended to make the market value of these securities less sensitive to changes in interest rates than similar securities with fixed dividend rates. Nonetheless,

adjustable rate preferred stocks have fluctuated in market value and are expected to do so in the future.

The dividend rate on an adjustable rate preferred stock is determined typically each quarter by applying an adjustment formula established at the time of issuance of the stock. Although adjustment formulas vary among issues, they typically involve a fixed relationship either to (1) rates on specific classes of debt securities issued by the U.S. Treasury or (2) LIBOR, with limits (known as "collars") on the minimum and maximum dividend rates that may be paid. As the maximum dividend rate is approached, any further increase in interest rates may adversely affect the market value of the stock. Conversely, as the minimum dividend rate is approached, any further decrease in interest rates may positively affect the market value of the stock. The adjustment formula is fixed at the time of issuance of the adjustable rate preferred stock and cannot be changed without the approval of the holders thereof.

The market values of outstanding issues of adjustable rate preferred stock may fluctuate in response to changing market conditions. In the event that market participants in a particular issue demand a different dividend yield than the adjustment formula produces, the market price will change to produce the desired yield. The dividend yield demanded by market participants may vary with changing perceptions of credit quality and the relative levels of short-term and long-term interest rates, as well as other factors.

Most of the issues of adjustable rate preferred stocks currently outstanding are perpetual.

Hybrid Preferred Securities. Hybrid, or taxable preferreds, are a comparatively new asset class, having first been introduced late in 1993. Income paid on these securities is not eligible for the DRD, but does constitute deductible interest expense for issuers thereof. The universe of hybrid issuers consists overwhelmingly of fixed coupon rate issues with final stated maturity dates. However, certain issues have adjustable coupon rates, which reset quarterly in a manner similar to adjustable rate preferred stocks described above. The hybrid preferred securities universe is divided into the "$25 par" and the "institutional" segments. The $25 par segment is typified by securities that are listed on the New York Stock Exchange, which trade and are quoted "flat", i.e., without accrued dividend income, and which are typically callable at par value five years after their original issuance date. The institutional segment is typified by $1,000 par value securities that are not exchange-listed, which trade and are quoted on an "accrued income" basis, and which typically have a minimum of ten years of call protection (at premium prices) from the date of their original issuance.

Inverse Floating Rate Securities. These securities typically arise in connection with a trust structure that repackages the income stream of an underlying fixed rate preferred security (the "collateral") into (1) an auction or variable rate component and (2) a residual component, the income of which will move inversely in relation to the income of the variable rate trust component. It is this second, residual component that is referred to as the inverse floating rate security. The income of an inverse floating rate security is typically expected to fall when short term interest rates rise and to rise when short term interest rates fall. Typically, the income flow to the inverse floating rate security holder will be much more variable than the income on an adjustable rate preferred stock, in part because of the inherent, implied leverage

reflected in component number (1) above. Further, with a sufficient rise in interest rates, an inverse floating rate security could end up not being able to pay any income to the investor for an indefinite period without constituting an event of default. While the trust structure typically does not result in any higher exposure to credit default risk, as opposed to holding the trust collateral directly, the market value risk due to general interest rate movements or any other factors is magnified.

The investment in inverse floating rate securities may be undertaken from time to time as the Fund pursues its fundamental investment objective. As a general rule, inverse floating rate securities are privately placed securities and may not be as liquid as other securities with a larger eligible buyer base. (See "Investment Objective and Policies -- Portfolio Investments -- Restricted Securities (Direct Placements)" below.) However, the holder of an inverse floating rate security usually has the contractual ability to obtain the auction (or variable rate component) corresponding to its investment in the inverse floating rate security and to surrender both of these components to the trust agent in exchange for the underlying shares held by the trust as collateral. This ability to "reconstitute" is usually limited to auction dates, which typically range from every 49 days to once per calendar quarter. This ability to reconstitute helps facilitate the evaluation and transacting of such securities in the market place.

Under normal conditions, the Fund may invest up to 5% of its total net assets in inverse floating rate securities, provided that the underlying trust collateral would otherwise qualify for investment, at the time of purchase, under the Fund's investment guidelines.

Common Stock. The Fund may invest up to 15% of its assets in common stock. Common stock is defined as shares of a corporation that entitle the holder to a pro rata share of the profits of the corporation, if any, without preference over any other shareholder or class of shareholders, including holders of the corporation's preferred stock and other senior equity. Common stock usually carries with it the right to vote and frequently an exclusive right to do so. Holders of common stock also have the right to participate in the assets of the corporation after all other claims are paid. In selecting common stocks for investment, the Fund expects generally to focus more on the security's dividend-paying capacity than on its potential for appreciation.

Certain traditional and hybrid preferred securities are convertible into the common stock of the associated issuer. To the extent that such preferred securities, because of their terms and market conditions, trade in close relationship to the underlying common stock of the issuer, they will be subject to the limit of 15% of assets, under normal market conditions, that applies to common stocks.

Auction Rate Preferred Stock. Auction rate preferred stocks pay dividends that adjust based on periodic auctions. Auction rate preferred stocks are similar to short-term corporate money market instruments in that an auction rate preferred stockholder has the opportunity to sell the preferred stock at par in an auction, normally conducted at 49-day or other short intervals, through which buyers set the dividend rate in a bidding process for the next period. The dividend rate set in the auction depends upon market conditions and the credit quality of the particular issuer. The typical auction rate preferred stock's dividend is limited to a specified maximum percentage of the Federal Reserve's Commercial Paper Index as of the

auction date. Further, the terms of auction rate preferred stocks generally provide that the shares are redeemable by the issuer at certain times.

The failures of several auctions since late 1990 have significantly decreased the financial market's perception that the auction process can be depended upon to guarantee that the price of such preferred stocks will approximate par or stated value, particularly among lower rated issues.

Money Market Instruments. Under normal conditions, the Fund may hold up to 15% of its assets in cash or money market instruments or, subject to the limitation on investments in investment companies, in money market mutual funds holding such types of investments. The Fund intends to invest in money market instruments or money market funds to meet its general working capital needs including, but not limited to, the need for collateral in connection with certain investment techniques (see "Investment Objective and Policies -- Investment Techniques" below), to hold as a reserve pending the payment of dividends to investors and to meet the liquidity requirements of rating agencies that rate the Fund's auction rate preferred stock, and to facilitate the payment of expenses and settlement of trades. As noted above, pending investment of the net proceeds of this offering in accordance with the Fund's investment objective and policies, the Fund may invest without limitation in money market instruments. In addition, when the Adviser believes that economic circumstances warrant a temporary defensive posture, the Fund may invest in short-term money market instruments without regard to the normal 15% limitation. To the extent the Fund invests in short-term money market instruments, it may not be pursuing its investment objective of high current income.