

Edgar Filing: F&C/CLAYMORE PREFERRED SECURITIES INCOME FUND INC - Form N-Q

F&C/CLAYMORE PREFERRED SECURITIES INCOME FUND INC

Form N-Q

October 27, 2003

F&C/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED

Dear Shareholder:

The F&C/Claymore Preferred Securities Income Fund came through its third fiscal quarter in good shape despite an extremely difficult market for fixed income securities. The return on net asset value ("NAV") for the period was -0.3%. Since the inception of the Fund on January 29, 2003 through the end of the fiscal quarter, the return on NAV was a very respectable 9.7%.

The extraordinary jump in intermediate and long-term interest rates during the quarter provided a textbook case for why we hedge against a substantial rise in interest rates. The yields on 10-year and 30-year U.S. Treasuries rose 1.10% and 0.86%, respectively, during the period. An investor in these securities would have suffered total return LOSSES of 7.8% on the 10-year and 10.9% on the 30-year.

Given the magnitude of the weakness in the fixed-income markets, the performance of the Fund's market price was even more impressive. For the quarter, the return on market was +1.7%. Since the Fund's inception through August 31st, the market return was +4.2%.

This was clearly one of the worst three months the bond market has ever experienced, and, without the Fund's hedging strategy, the results would have been much worse. In some ways, hedging is a lot like buying an insurance policy - you pay a premium, but don't expect to collect very often. When you need it, however, you are awfully glad you have it! During the past quarter we certainly needed the hedge; WITHOUT IT, THE RETURN ON NAV WOULD HAVE BEEN 6.4 PERCENTAGE POINTS LOWER.

Interest in preferred securities remains high, but on balance there has not been a lot of new supply. As you would expect, these conditions have resulted in the yields on preferreds narrowing versus the yields on Treasury notes and bonds. Despite this, when compared to historical relationships, preferred securities still appear attractively priced at present.

The Fund's investment portfolio is in good shape. The portion of the portfolio in preferred securities is slightly below our 80% target, but only because the recent gains from the hedge means there is money to invest.

Low short-term interest rates have kept the rates paid by the Fund on its Auction Market Preferred Stock close to 1%. Of course, low short-term rates are a double-edged sword in that the cost of our hedging strategy is higher due to the current steepness of the yield curve.

We encourage you to read the enclosed letter. In it, we discuss a very important subject - reinvesting distributions of capital gains. Keep in mind that this is different from the decision to reinvest monthly income dividends. In fact, the best way to maximize your monthly distribution over time is to reinvest any capital gain distribution.

Sincerely,

/S/ Donald F. Crumrine

/S/ Robert M. Ettinger

Donald F. Crumrine
Chairman of the Board
September 30, 2003

Robert M. Ettinger
President

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 F&C/Claymore Preferred Securities Income Fund Incorporated
 SUMMARY OF INVESTMENTS
 AUGUST 31, 2003 (UNAUDITED)

	VALUE (000'S) -----
PREFERRED SECURITIES	
Utilities	\$ 170,95
Banking	513,39
Financial Services	263,84
Insurance	196,88
Oil and Gas	25,19
Miscellaneous Industries	11,65

TOTAL PREFERRED SECURITIES	1,181,9
CORPORATE DEBT SECURITIES	
Utilities	147,36
Financial Services	38,00
Insurance	47,04
Other	33,78

TOTAL CORPORATE DEBT SECURITIES	266,19
COMMON STOCKS AND CONVERTIBLE SECURITIES	
Utilities	55,22
Other	4,83

TOTAL COMMON STOCKS AND CONVERTIBLE SECURITIES	60,05
U.S. GOVERNMENT AND AGENCY DEBT SECURITIES	34,43
PURCHASED PUT OPTIONS	25,39
MONEY MARKET FUNDS	82

TOTAL INVESTMENTS	1,568,83
OTHER ASSETS AND LIABILITIES (NET)	8,97

TOTAL NET ASSETS AVAILABLE TO COMMON AND PREFERRED STOCK	\$1,577,8
	=====

FINANCIAL DATA
 PER SHARE OF COMMON STOCK (UNAUDITED)

	MONTH END -----	MONTHLY -----
	NET ASSET VALUE -----	NYSE CLOSING PRICE -----
		TOTAL DIVIDEND PAID (1) -----

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January, 2003	\$23.82	\$25.00	\$ --
February, 2003	23.96	25.03	--
March, 2003	23.93	24.96	--
April, 2003	24.39	24.75	0.1725
May, 2003	25.85	25.25	0.1725
June, 2003	25.64	25.48	0.1725
July, 2003	25.03	24.89	0.1725
August, 2003	25.24	25.17	0.1725

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STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK
FOR THE PERIOD FROM JANUARY 31, 2003* THROUGH AUGUST 31, 2003 (UNAUDITED)

OPERATIONS:

Net investment income

Net realized gain on investments sold during the period

Change in net unrealized depreciation of investments held during the period

Distributions to Auction Money Market Preferred Stock (AMPS**) Shareholders from net investment income, including changes in accumulated undeclared distributions

Net increase in net assets from operations

DISTRIBUTIONS:

Dividends paid from net investment income to Common Stock Shareholders

Distributions paid from net realized capital gains to Common Stock Shareholders

Total Distributions

FUND SHARES TRANSACTIONS:

Increase from Common Stock Transactions

Decrease due to Cost of Common Stock offering

Decrease due to Cost of AMPS** issuance

Net increase in net assets available to Common Stock resulting from Fund share transactions

NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD

NET ASSETS AVAILABLE TO COMMON STOCK:

Beginning of period

End of period

FINANCIAL HIGHLIGHTS
FOR THE PERIOD FROM JANUARY 31, 2003* THROUGH AUGUST 31, 2003 (UNAUDITED)
FOR A COMMON SHARE OUTSTANDING THROUGHOUT THE PERIOD.

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PER SHARE OPERATING PERFORMANCE:

Net asset value, beginning of period

INVESTMENT OPERATIONS:

Net investment income

Net realized gain and unrealized appreciation on investments

DISTRIBUTIONS TO AMPS** SHAREHOLDERS:

From net investment income

From net realized capital gains

Total from investment operations

COST OF ISSUANCE OF AMPS**

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income

From net realized capital gains

Total distributions to Common Stock Shareholders

Net asset value, end of period

Market value, end of period

Common shares outstanding, end of period

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income ***

Operating expenses

SUPPLEMENTAL DATA:+

Portfolio turnover rate fiscal year to date

Total net assets available to Common and Preferred Stock, end of period (in 000's)

Ratio of operating expenses to total average net assets available to Common and Preferred St

DIRECTORS

Martin Brody
Donald F. Crumrine, CFA
Nicholas Dalmaso
David Gale
Morgan Gust
Robert F. Wulf, CFA

OFFICERS

Donald F. Crumrine, CFA
Chairman of the Board
and Chief Executive Officer
Robert M. Ettinger, CFA
President
Peter C. Stimes, CFA
Chief Financial and Accounting
Officer, Vice President and
Treasurer

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Nicholas Dalmaso
Vice President
Robert E. Chadwick, CFA
Vice President and Secretary
Bradford S. Stone
Vice President
INVESTMENT ADVISER
Flaherty & Crumrine Incorporated
e-mail: flaherty@fin-mail.com

QUESTIONS CONCERNING YOUR SHARES OF F&C/
CLAYMORE PREFERRED SECURITIES INCOME FUND?

- o If your shares are held in a Brokerage Account, contact your Broker.
- o If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent --
PFPC Inc.
P.O. Box 43027
Providence, RI 02940-3027
1-800-331-1710

THIS REPORT IS SENT TO SHAREHOLDERS OF F&C/CLAYMORE PREFERRED SECURITIES INCOME FUND INCORPORATED FOR THEIR INFORMATION. IT IS NOT A PROSPECTUS, CIRCULAR OR REPRESENTATION INTENDED FOR USE IN THE PURCHASE OR SALE OF SHARES OF THE FUND OR OF ANY SECURITIES MENTIONED IN THIS REPORT.

[GRAPHIC]
F&C/CLAYMORE
PREFERRED SECURITIES
INCOME FUND

QUARTERLY
REPORT

AUGUST 31, 2003

web site: www.fcclaymore.com