

NEWS ALERT



DEAR SHAREHOLDER:

Three months have passed since we communicated with you regarding the emerging issues in the mutual fund industry caused by the misbehavior of certain individuals and mutual fund complexes. We believe it is important to keep you posted on issues surrounding mutual funds and how our fund complex has reacted to these issues. We will try to avoid repetition, as little has changed specifically on many of the issues addressed in our October 31st letter. If you would like to have a copy of that October letter as a new shareholder, don't hesitate to call us on our Fund phone number, 800-472-4266.

PAYING BROKERS TO SELL FUND SHARES

- < In the past three months, it has been revealed that certain mutual fund complexes made payments to brokerage firms to get placed on an "approved" list of funds sold by their retail brokers (so-called "revenue sharing" arrangements). There is a concern that the conflicts of interest inherent in these arrangements are not being adequately disclosed to investors. Stratton Management Company does not engage in revenue sharing arrangements with respect to the sale of shares of the Stratton Funds. Our philosophy is that our Funds are "bought by investors, not sold by brokers."
- < Also under review is the practice of directing brokerage commissions generated from mutual fund portfolio securities trades to reward brokerage firms that sell a fund's shares. We have never directed any of our mutual fund commissions to brokerage firms to encourage them to sell shares of our funds.

HOW WE USE OUR MUTUAL FUND BROKERAGE COMMISSIONS

- < We negotiate the lowest possible rates to minimize the commission costs when we buy or sell stocks for each of our three mutual funds. In 2003, the average commission was 4.4 cents per share for Stratton Monthly Dividend REIT Fund, 4.0 cents per share for Stratton Growth Fund and 3.8 cents per share for Stratton Small-Cap Value Fund. The distinction among our Funds is generally based upon the price of the shares that are being traded. The lower the price of the shares, the lower the commission rate. Stratton Small Cap-Value Fund probably had more low-price shares being traded than Stratton Monthly Dividend REIT Fund.

- < We have seen a steady reduction in brokerage commissions paid by our mutual funds over the last thirteen years. For example in 1991, our mutual funds averaged a payment of 7.1 cents per share, in 1995 that was reduced to 6.6 cents per share and in 2000 it was 4.5 cents per share. It is in our best interest to minimize this cost of trading.
- < In determining which brokerage firms to use to execute trades on behalf of our mutual funds, we do consider research services that these firms can provide to us. We direct brokerage commissions to two classes of firms that provide input to our investment process. The first are those research oriented brokerage firms that provide us with information and comment on companies and industries in our portfolio. The second is those independent research firms that provide us with computer software and databases that facilitate stock selection, quantitative screens of the entire stock universe and databases such as earnings forecasts and stock market technical price action.

UNDERSTANDING INVESTMENT PERFORMANCE

- < All of the cost incurred in running mutual funds is shown in the net asset value per share calculation. This would include stock exchange commissions, the fees paid to the investment manager, plus all out-of-pocket expenses such as legal, accounting, printing and postage. Therefore, by analyzing the performance of the mutual fund, you see the net result after all expenses have been paid.
- < Investors should remember that it is net performance that really matters. A superior performing fund, which has a high cost, has been a better investment than an inferior performing fund with a low cost. Expenses are important in judging which fund to invest in, only if the investment performance is very close or identical. This would be true of money market funds, equity index funds and in most cases, U.S. Treasury and municipal bond funds. In those areas, expense ratios could be very important to determining which fund yields the best performance.
- < Performance should be measured and appreciated over many years. There is great volatility in performance from year-to-year. For example, 2003 was the best performing year for Stratton Growth Fund throughout the thirty-two year history of the Fund; the best performing year for Stratton Small-Cap Fund in its eleven year history; and the second best performing year for Stratton Monthly Dividend REIT Fund in twenty-four years. The actual performance numbers are in the annual report that accompanies this letter. However, the year 2002 was among the poorest performing years for both Stratton Growth Fund and Stratton Small-Cap Value Fund.
- < We encourage all of our potential investors to analyze the Funds' performance numbers over five, ten, fifteen and twenty year periods. This is especially meaningful since the Funds possess these long-term track records and the investment style has been relatively similar over a long period of time. During those periods of time, we have seen multiple economic and political changes take place in our investment markets.

THE VALUE OF MUTUAL FUNDS

- < We still believe that mutual funds are the best investment vehicle available to provide diversified equity ownership for all investors, not just small investors.
- < The eagerness to address the scandals, especially by government officials, should not result in an increased financial burden to the shareholders of the entire mutual fund industry resulting from imposing additional layers of unproductive cost on the entire industry.
- < We believe the shareholder base of the mutual fund industry is much smarter than they are given credit for. Despite all of the intense publicity from the financial media about the mutual fund scandals, investors increased their asset allocation into equity mutual funds. That was because 2003 was a strong year for equity performance; as we said earlier performance is what truly matters. The national shareholder base has already learned how to reward those mutual fund complexes that are shareholder friendly and how to punish those fund groups that have taken advantage of their fiduciary responsibility. The market place is sorting out many of these issues much faster than the regulatory process. It is our only hope that the regulatory process will not impose higher costs of regulation on all mutual fund shareholders.

James W. Stratton
Chairman

PLEASE RETAIN THIS LETTER IN YOUR MUTUAL FUND INFORMATION FILE TO REMIND YOU OF THE UNIQUENESS OF THE STRATTON FUNDS.

*This material must be preceded or accompanied by a current Prospectus.
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