Stratton Mutual Funds

NEWS ALERT

Happy New Year! We at **Stratton Mutual Funds** hope you enjoyed a safe and happy holiday season and wish you a profitable New Year. Looking back to January a year ago, 2004 looked relatively uncertain. Interest rates were on the rise, inflation and the Presidential election were looming. All of these factors weighed on stocks for the first three quarters of the year, but the markets rebounded during the fourth quarter and most diversified domestic stock funds finished the year with positive numbers. The Stratton Mutual Funds were no exception.

Once again, the small-cap value category of all diversified domestic stock funds performed best, rising more than 20% for the year, through December 31, 2004. Since 2000, the small-cap value category has been the best-performing sector due to several factors including significant underperformance in the late 1990s and attractive relative valuations. And just as smaller companies have outperformed larger ones, value stocks have had better returns than growth stocks in 2004 and over the three- and five-year trailing periods. We're pleased to report that *Stratton Small-Cap Value Fund*[1] ended the year up 26.4%.

Real estate funds also topped the charts this year. The same factors that boosted diversified small-value stocks have also helped real estate funds. This particular category has enjoyed a great deal of success recently, gaining more than 20% on an annualized basis over the past five years. *Stratton Monthly Dividend REIT Fund*[2] is no exception with a five-year annualized return of +20.5%. The Fund gained 22.2% for the year, through December 31, 2004.

Stratton's oldest fund, *Stratton Growth Fund*[3] also enjoyed success during 2004, ending the year up 23.5%. Of course, while we like to tout our successful one-year numbers, Stratton still believes that investors should invest in stocks for the long haul. Stratton Growth Fund is a perfect example of why that philosophy is prudent. The Fund has been around for over 30 years and has a 30 year annualized return of over 14%. That's an average of over 14% through all types of markets, from the dismal lows of the 1970's through the wildly fluctuating markets of the 80's and 90's.

We thank you for contributing to our success this year and look forward to the challenges that await us in 2005. We will continue to manage your assets with the same discipline that we have been for over 30 years.

For more information about the Stratton Funds and the Funds' performance, go to www.strattonfunds.com. You should consider the investment objectives, risks, charges and expenses of the Stratton Funds carefully before investing. A prospectus with this and other information about the Funds may be obtained by calling the number above or by downloading a copy from the website. Please read the prospectus carefully before investing.

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[1]SSCV

Period Ending December 31, 2004	Average Annual Total Return
1 year	+26.43%
3 years	+19.63%
5 years	+18.66%
10 years	+15.82%

[2]SMDS

Period Ending December 31, 2004	Average Annual Total Return
1 year	+ 22.17%
3 years	+ 19.86%
5 years	+ 20.52%
10 years	+ 12.78%
15 years	+ 10.51%
20 years	+11.02%

[3]SGF

Period Ending December 31, 2004	Average Annual Total Return
1 year	+23.53%
3 years	+11.36%
5 years	+13.180%
10 years	+14.91%
15 years	+12.13%
20 years	+12.97%
25 years	+13.28%
30 years	+14.27%

Past Performance is no guarantee of future results, share prices will fluctuate, and you may have a gain or a loss when you redeem shares. Investment performance reflects fee waivers in effect. In the absence of fee waivers, total return would be lower. Total return is based on net change in NAV, assuming reinvestment of all distributions.

Real Estate Funds may be subject to a higher degree of market risk because of concentration in a specific industry or geographic sector. Risks include declines in value of real estate, general and economic conditions, changes in the value of the underlying property and defaults by borrowers.

Small company stocks are generally riskier than larger company stocks due to greater volatility and less liquidity.

Unmanaged indices are not available for direct investment.

The average annual total return is computed by determining the average annual compounded rate of return during specified periods that equates the initial amount invested to the ending redeemable value of such investment. This is done by dividing the ending redeemable value of a hypothetical $1,000 initial investment by $1,000 and taking the root of the quotient equal to the number of years (or fractional portion thereof) covered by the computation and subtracting one from the result.