The New York Times

Business Day

Your Money

April 27, 2012

Lights. Camera. Invest! Putting Filmmaking in the Portfolio.

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FOR most people, investing has not been fun these last few years. At best, it has been stressful.

But there are investments that have nothing to do with stocks or bonds or real estate that may be at least enjoyable if not always moneymaking. I've come up with about a half-dozen, and over the next few weeks, I plan to explore some of them, including investments as different as horses and restaurants. My goal is to see how people do this successfully — or whether they have a broader definition of success than just making money.

This week, I'm going to look at films, given that the influential Tribeca Film Festival is under way; it runs through Sunday.

Investing in a movie seems a risky proposition. Movie studios lose tens of millions of dollars on films almost every week. But for some amateurs, being part of the film festival circuit, let alone making it to a big Hollywood premiere, can be glamorous. For a serious investor, with more at stake, there are many ways to make money in films that have little to do with box-office success.

Dennis Wallestad, chief financial officer of the Treasury services division of JPMorgan Chase, said he wanted to back a promising filmmaker after spending over a decade as a benefactor to David M. Lenz, an artist who gained wide acclaim in 2006 when he won a competition at the Smithsonian National Portrait Gallery.

He met the filmmaker Nate Taylor because their wives knew each other. On the surface, they seem nothing alike. "I'm a C.P.A. from Milwaukee and as white bread as they come," Mr. Wallestad said. "He's a goth with a mohawk."

Yet after many meetings, Mr. Wallestad put up $300,000 to make the film "Forgetting the Girl." He also ran all aspects of the film's finances and whittled away waste as he does in his day job. "I wanted to help someone else," Mr. Wallestad said. "My covenant with Nate is, You do the art and I'll take care of the business."

Earlier this month, “Forgetting The Girl” won the audience award at the SoHo International Film Festival, and Mr. Wallestad said that had attracted interest from two dozen distributors.

This type of success right out of the gate is an anomaly. Kristina Leigh Copeland said she rounded up nearly $3 million from investors, mostly family, to make “The Wall Street Conspiracy,” a documentary about naked short-selling, the esoteric, and now illegal, practice of using shares you never borrowed to bet that the value of a stock will fall. But so far, the film is available only on her Web site. She said she realized now that she needed to cut her budget for her next film.

For investors, controlling the budget is crucial but also relatively obvious. There are other less obvious risks to consider.

Marc Jacobson, an entertainment lawyer in New York, said the biggest risk to someone’s investment was that the film was not completed.

“Someone who has a couple of million dollars to invest is not going to be able to invest in a $100 million blockbuster,” he said. “Most will work in the $1 million to $2 million range, and producers often can’t finish the film.”

He said one precaution is to demand a completion bond, which is an insurance policy that the film will be finished on time and on budget. He said many directors balked at this because the insurance company might interfere with their vision. (These companies also require 10 percent of the budget be held in reserve and charge a fee of 4 percent of the budget.)

“There are many ways to make money these days in film, but you can only get that if the film is completed,” Mr. Jacobson said.

An adviser who knows the business is crucial in this.

Marc H. Simon is an entertainment lawyer at Cowan DeBaets Abrahams & Sheppard, but over the last decade he has produced three well-received documentaries. His most recent one, released this month, is “Unraveled,” about a lawyer, Marc Dreier, who defrauded investors of $740 million to support his law firm and is now serving 20 years in jail.

Knowing the industry, Mr. Simon has been able to sell off various rights to different investors beyond the theatrical release, like video on demand and cable, to make and promote the film.

“We don’t have huge marketing dollars for a theatrical release,” he said. “The real key is the video-on-demand life can be huge for this film. People anywhere in the country can watch it right now on every single cable system in the country.”

This option did not exist when his previous film, “Nursery University,” about the hypercompetitive preschool admissions process in Manhattan, was released. For that, he raised the funds, which he said were in the mid six figures, from 10 investors. While the film did not break even, Mr. Simon advised his investors on Section 181 in the Internal Revenue Code, which has now expired but allowed them at the time to deduct their investment in “Nursery University,” against their unearned income in the years the film was made.

“For the small independent films, the financiers should be investing in the film for reasons other than profit,” Mr. Simon said. “They have to enjoy the experience of being part of the business, of going to the festivals and being part of a very fun industry.”

Of course, few people need to be told that many films do not make a profit. But how do people make money in films?

The portfolio model is one way. “If you’re going to invest in a film, the wise economic advice is don’t invest in a single picture,” said Bob Rubin, a former senior executive at Universal and Sony and the founder of Hollywood2Go.com, which offers seminars on how Hollywood works. “The likelihood of success is very low and the risk is high. If you want to get into the business in a bigger way, find a way to invest in a portfolio.”

Another way is to wait until later in a film’s production. Most commercial films have a defined payout structure, where the people who put money in first will get paid back after everyone else. Mr. Jacobson said he had advised clients on lending money at 15 to 20 percent interest to finish a film or pay for the marketing costs, which are investments that get paid back sooner.

They can also lend money to a filmmaker that will be secured by the tax credits films receive from the states where they are shot. “If a film is due to get back $350,000, they could lend 80 percent plus some rate of interest,” he said. “They get paid back when the tax credits come in.”

Yet another option is avoid the risk of theatrical release and aim for a more captive market. That is what Chat Reynders, chairman and chief executive of Reynders, McVeigh Capital Management in Boston, has done in his two decades of investing in IMAX films made for educational institutions.

Mr. Reynders said his firm created funds for each film and financed up to 20 percent of the film's cost of $8 million to $12 million. Instead of following the traditional Hollywood model, Mr. Reynders said he structured the investments so that all parties, from investors to distributors, were paid back equally.

He said people who invested in "Whales," the first IMAX film he was involved in, received their money back plus 35 percent over eight years. Those who invested in "Coral Reef Adventure" received their capital back plus a 10 percent return.

"It's not that exciting unless you're trying to make an impact in the world," he said. "Our red carpet event for our latest film had 150 people going to a New York IMAX theater."

Yet that film, "To the Arctic," could be his breakout hit. It had support from Coca-Cola and was picked up by Warner Brothers for a wider release. But his goal has been to recycle the money from one film to the next.

While Mr. Wallestad said he had fun, he has not given up on making a profit on "Forgetting the Girl." "I am interested in getting my money back," Mr. Wallestad said. "But I want to make money over a longer time. We're already talking about a second film."