

Hollywood snubs proposed betting on ticket sales

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A sales person sits in a box office at the El Capitan Theatre in Los Angeles, Wednesday, March 31, 2010. The proposals the U.S. Commodity Futures Trading Commission are expected to rule on this month would let movie fans, industry executives and speculators bet on expected box office receipts. (AP Photo/Jae C. Hong)

(AP) -- Think you're better than Hollywood at gauging whether an upcoming flick will be a box office bomb or a sleeper hit? You'd get a chance to put your money behind that under two proposals that movie studios are denouncing as legalized gambling.

The proposals the U.S. Commodity Futures Trading Commission are expected to rule on this month would let movie fans, industry executives and speculators bet on expected box office receipts. Investors profit if their predictions come true and lose if they don't.

These online trading forums would be similar to futures markets common for commodities such as corn, pork bellies, natural gas and silver. Although goods are rarely exchanged directly through such markets, they let buyers and sellers reduce risks by locking in prices months ahead of time. A corn farmer might want to do that in case a bumper crop pushes prices down too low.

Now, two companies want to bring that concept to Hollywood, a notoriously risky industry in which big-budget productions can go bust in a single weekend and independent movies can become unexpected hits. But the investors most likely to benefit from such an exchange - the six major Hollywood studios - have rallied against the proposals.

Although the companies behind the exchanges still plan to proceed, regulators pushed back a decision on one of the proposals, Trend Exchange from Veriana Ventures, amid the last-minute opposition. A ruling could now come Friday, more than a week later than originally expected.

A decision on the other proposal, Cantor Fitzgerald LP's Cantor Exchange, is expected around April 20.

The studios' trade group, the [Motion Picture Association of America](#), argues that the proposals tarnish the reputation and integrity of the [movie industry](#) by authorizing "legalized gambling on movie receipts."

The organization also complained that so many people screen movies before they are released that it would be "virtually impossible" to prevent insider trading.

The backers of the proposals say they don't need studios' involvement to succeed, though that's akin to corn farmers staying out of the futures market for corn.

"The studios only represent a small part of the hedging community," said Rich Jaycobs, president of the proposed Cantor Exchange.

Russ Andersson, Veriana's director of risk management, said other players with large stakes in movies, such as directors, actors, financiers and theater owners, might have doubts about the box office potential of some projects and would be willing to take part.

Cantor Fitzgerald already runs the Hollywood Stock Exchange, a virtual market in which shares of celebrities and movies rise and fall with their popularity. But while that market trades on "Hollywood Dollars," those using Cantor Exchange would use real currency to bet on a movie's prospects.

(Cantor Fitzgerald is also behind a venture that lets people use wireless devices to bet on sporting events while roaming around casinos. The devices, approved by Nevada gambling regulators, also casino mainstays such as black jack as well.)

Under both proposals, no actual goods or shares in films would change hands. Trading would simply offset deals made in the real world. Movie fans and others without a direct interest in the films would be able to participate as well, absorbing some of the risks from producers and other investors.

Investors would be able to hedge against potential flops by preselling a share of future box office receipts. The exchanges could even guard against likely hits such as the upcoming "Harry Potter" and "Twilight" sequels falling short of projections.

If a movie doesn't do as well as expected, investors would at least be guaranteed revenue from those presales, known as futures contracts.

If it does better, though, they wouldn't get to keep all the additional receipts. Speculators would get a share when they bet on risky movies that do unexpectedly well.

Movie financiers also could use the system to diversify their portfolios, by investing in portions of several movies rather than placing all their money in one.

Both systems would rely on two parties making deals based on estimated box office revenue of a certain movie over a fixed period, such as the opening weekend or the first month in theaters.

The amount of money changing hands would depend on the number of contracts sold - in other words, how much investors want to offset their risk and how much speculators want to wager.

There are restrictions, though. Cantor, for instance, would prohibit investors from hedging more than a third of their interests, and the exchanges and federal regulators could step in if, say, a movie studio pulls advertising to artificially lower theater attendance.

Cantor would allow trading accounts starting with just \$50 in them, allowing most members of the public to participate. By contrast, Trend Exchange's higher minimums and stricter trading standards would prevent amateurs from taking part. Cantor would allow direct trading by investors through a Web site, while Trend Exchange would require brokers.

With opposition from the six major studios, the box office futures markets may have to look elsewhere to find participants, and hedging could take place by those who don't really have that much at stake. If the backers can't find enough people to sell futures contracts, the exchanges might die off even if they receive regulatory clearance.

Cantor's Jaycobs predicted studios will come to understand the system and see its benefits, adding that less risky outcomes could make it easier for some movies to get made.

He noted that when the New York Mercantile Exchange began trading crude oil futures in 1983, none of the big oil companies wanted to take part, but became major participants in subsequent years.

"By Year 3, using the energy market example, I'm sure they (the studios) will participate," he said.

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