THE MYTHS OF BROADWAY INVESTING

Because of the success I've had as a Broadway Producer, I've received many inquiries from potential Broadway Investors asking how to invest in Broadway and off Broadway shows. Usually the people asking these questions are unsure about how to get involved and, more importantly, they want to know how to pick their first show without losing their shirt!

Since Broadway Investing has become such a popular activity for theater lovers, I thought I'd take a moment to dispel a few of the nasty rumors associated with investing in Broadway shows, and also give you my checklist of how to choose a show to invest in.

First, the rumors . . .

BROADWAY INVESTING RUMOR #1:
Investing in Broadway shows is only for the super-rich.

Because Broadway capitalizations can range from $2 million for a Play up to $20 million for a Broadway Mega-Musical (or $83 million for a certain spidery musical), many people fear that the "entry point," or the amount of money required for an initial individual investment is $100,000, $200,00 or more!
Not true.

The average investment in a big Broadway show is probably about $25,000. And, I have seen many shows where investors were able to get in for as little as $10,000, and even a few where the entry point was only $5,000 (mostly Off Broadway productions)! There are a lot of publicly traded mutual funds that don't allow you to get in at that level.

What determines the lowest investment level? Here's how it works. Capitalizations are divided into 'units,' just like shares of a stock. What defines a unit is up to the Producer. Some Producers like to have a round 100 units per show, regardless of the capitalization. Some like to pick the lowest amount they can accept as an investment (some shows are limited to the number of investors they can have). Some just make it up arbitrarily.

Here's a tip. If you're considering a show and you get sticker shock when you hear the price of one unit? Ask for a partial. Splitting units isn't like splitting an atom. It can be done with ease. Depending upon a variety of circumstances, including how hot the property is, who the Producer is, and whether or not other investors took "round units," it may be possible for you to invest in a smaller amount than the "ask."

The key is, of course, never be pressured into investing more than you're willing to lose. If the entry point on one project is too high, don't worry, there are others.

BROADWAY INVESTING RUMOR #2:
Investing in Broadway shows is only for the super-crazy.

So many people think that it's bonkers to get involved with Broadway.

The fact is, if you're an individual of a certain net worth, your financial advisor will probably recommend that you allocate a certain amount of your investment portfolio (usually about 10%) to higher risk instruments or so-called Alternative Investments in order to keep yourself diversified (most Broadway and other Alternative investments require investors to be "Accredited," although this is not always the case for shows).
Broadway is just another example of one of those Alternative Investments.

The commonly quoted statistic is that only 1 out of 5 Broadway shows recoup their investment. But it's not the only high risk instrument on the market, by any means. Investing in Broadway shows is a lot like investing in a restaurant, a piece of art, or frankly, in any entrepreneurial start-up. In this country, the average success rate for a start up business is about 1 out of 10. So at 1 out of 5, already, Broadway is not as bad as you might have thought.

And, if you do proper due diligence, you can increase those odds.

Also, with big risk can come big rewards. Even if you do end up performing according to the stats, the goal and hope is that the 1 show out of 5 ends up paying for any other previous losses (it's a marathon, not a sprint) and then some. Imagine what it would have been like to invest in *Annie, West Side Story*, *Cats* or *Wicked*!

BROADWAY INVESTING RUMOR #3:
Investors in Broadway shows belong to an exclusive 'club' that doesn't accept new members.

While it is true that there are a lot of investors in the Broadway world that have been in the circle for a long time, it's not as closed door of a club as you think. While it can be hard for a new investor to get in on the hottest shows coming to town, it's not impossible, and sometimes Producers will let you get in on a 'sure-thing' (which doesn't exist, by the way) if you also agree to come into something a bit more risky.

However, it is a relationship business, and preferential treatment is often given to investors who have been doing it longer, and to those that have been faithful to the Producer.

So what does a new investor do? Start the relationship.

Call a Producer. Email them. Meet them at a function and shake their hand. Simply state that you're looking to invest in a specific show (if you know one that they are about to do), or ask to be put on the list to be called about their next show. I don't know any Producer out there who would mind putting you on a "potential" list. Just make sure you are serious about your interest.

Those are three of the biggest obstacles that potential Broadway and Off-Broadway investors tell me prevent them from taking the first step and joining the ranks of Broadway investors.

Now, let me give my five rules for choosing a project you want to invest in.

BROADWAY INVESTING RULE #1: Have passion for the project.

Broadway Producers and Investors often refer to their shows as their "kids." Shows need the same type of care, hand-holding, and unconditional love.

And they are expensive!

You love your kids no matter what happens, even when they disappoint you. ☺ And the same should be true of your shows.

So, I teach my clients and investors to invest in what they love, because this way they'll always be happy they did it.

This theory is based a bit on famed investment guru Peter Lynch's theory of "invest in what you know." Peter believed you should put money into companies that make products that you see and use every day (and products that you can't live without). I believe this should be adapted to entertainment investments as well. Invest in shows that you can't see NOT happening. Invest in shows that you believe are important to be seen; whether that's because it has a socio-political message, whether that's because it features an amazing performance by an legendary actress, or whether that's because it's so much fun that the audience's day will be better just by experiencing the show. Invest in shows that you love. If it doesn't work out, you'll be proud to have helped make it happen!

BROADWAY INVESTING RULE #2: It's all about who's driving the boat.

Before investing in a mutual fund, Wall Street geeks will tell you to look at a variety of factors, one of the most important being who is managing the fund. You've got to know who is making the day-to-day decisions. What is their track record? Where did they learn to do what they do? How long have they been doing it?

These are all questions you need to ask before investing in a Broadway show. Look at the Producer's resume (you can find them all on the Internet Broadway Database.) Have they produced shows that have recouped? How many hits do they have? How many misses? Would you have produced similar shows? Do you have similar tastes? Choosing to invest with Producers with a proven track record is one of the best ways you can reduce your risk when investing in a Broadway or Off-Broadway show.

BROADWAY INVESTING RULE #3: Just like an actor, you have to know your objective.

What do you want out of investing in a Broadway show?

Different objectives will greatly affect what project you choose to do. Do you want to make money? Do you want to get access to opening night parties, etc. so you can network? Are you looking to get inside access to agreements and figures, etc. so you can learn more about how to produce your own show? Do you want to support the work of a specific playwright?

One of my favorite "objective" stories is about the investor who was thinking about graduate school as a way to learn how to produce. They decided against it, and took the money they were going to spend on tuition and invested it in several shows. They thought there was more to learn by playing the game. Last I heard, they were doing pretty well and beating the odds. There are a zillion reasons to invest in a Broadway show. Make sure you have at least one.

BROADWAY INVESTING RULE #4: Don't try to be a one-hit wonder.

We all want to be perfect and pick a winner the first time out, but that is the exception not the rule. Don't expect to knock one out of the park your first time up at bat. When signing up to invest in Broadway, imagine that you're a baseball player playing a full nine innings. If you strike out the first time (or even the second and the third) don't worry, you could hit a homer in the bottom of the 9th and win the game. If your first show doesn't make it, have a post-mortem with yourself (and with the Producer) and try and determine why it didn't work. Learn from it, and apply those lessons to your next time up at bat. Your odds of success should get better each time. Just don't pull yourself out of the game.

BROADWAY INVESTING RULE #5: Examine the lay of the land.

It's impossible to time the market. But, in a playing field as small as Broadway, with its limited audience, it's important to take a look at your potential competition. Are you doing a new musical at a time when six other new musicals are opening? How do your stars match up against the other shows' stars? Are you the only classic play? Are you the only comedy? The big TV networks program their seasons so they can appeal to all of the appropriate demographics, without too much weight on one type of show. Since Producers are mostly independents, we can't program collaboratively, but as an investor you can look to see if your show is going to get lost in a sea of other similar shows, or if it will stand out amongst a lack of competition, without having to place $125k *New York Times* full page ads.

So there you have it! The above are the first five basic questions I ask myself when contemplating investing in a Broadway or Off-Broadway show. There are countless others you should ask when you get into the details of the production after you examine the budget, find out who's directing, etc., but these will get you started on the road to investing in a show. You'll notice that a lot of the above rules and checklists are very similar to the rules and checklists for investing in the stock market or any market (invest for the long haul, know your objectives, risk tolerance, etc.). And that's the most important thing to remember. Too many people think investing in Broadway is a hobby, which it can be, and in those cases you'll probably only hit a winner on the average 1 out of 5 times. Broadway is big business, and should be treated as such. And if you apply the same principles you'd apply to other investment vehicles and do the due diligence, there's no reason you can't turn that hobby into something that is fun, educational, and yes, even profitable.

If you'd like to learn more about Investing in Broadway, I'd urge you to take my seminar on Broadway Investing.   In addition to teaching you the nuts and bolts of how the financial side of Broadway investing actually works (where does your money go, anyway?), I also guarantee that I can teach you simple tips and tricks that can help make you money.

To learn more about the seminar, visit www.TheProducersPerspective.com.