Hooray for Hollywood!

The financial industry has played a leading role in turning Wall Street into a real nail-biter, with investors on the edge of their seats anxiously watching the Big Board with all the horror of a Stephen King flick. This is one drama viewers might wish had gone direct to DVD, as more movies have in recent years.

With a glut of DVDs on the market, it could appear that Hollywood stocks might have lost their glitter, but not so. Experts give a number of companies in this industry two thumbs up.

"Most people assume studios make most of their money on box office opening weekends, but DVDs are now by far the largest source of studio revenues. Because it costs four dollars to make a DVD, which can be sold for fifteen dollars, they are also much more profitable," says Cale Smith of Islamorada Investment Management. "The majority of today's movies are made with DVD sales in mind, first and foremost," he adds. In fact, numerous companies make films that only go straight to DVD. Their incentive: "Warner Bros., Fox, Sony, Lions Gate [and] Universal are paying the independents less for the titles, offering a guaranteed distribution fee and paying the independents a percentage," says Jonathan Bogner of Bogner Entertainment, which most recently produced the film "Soccer Mom."

"In general, the more films and more DVDs a studio produces, the more profitable [it] become[s]," explains Rick Munarriz, a Motley Fool analyst. Feature films are coming off the silver screen and onto DVDs within 6 months now to ride the wake of their marketing campaigns. The problem with investing in Hollywood studios is their creative accounting and lack of transparency—they just give big-picture numbers.

Smith likes CBS (NYSE: CBS; Price: $8.42), Discovery Communications (NASDAQ: DISCA; Price: $12.30) and Viacom (NYSE: VIA.B; Price: $18.52), because they each "trade for a bargain price relative to the ability of each company to create sustainable long-term profit and ... are investing their capital wisely," he says. Discovery is his favorite, and he bought it aggressively for the long term during last October's market chaos. He believes "the potential market for Discovery is bigger than the others," due to its programming's broad appeal and the fact that its content "translates easily to the Web, the classroom and HD[TV]."

Munarriz says digital movie distributors are the real winners. He likes Comcast (NASDAQ: CMCSA; Price: $16.31), DirecTV (NASDAQ: DTV; Price: $20.09) and Netflix (NASDAQ: NFLX; Price: $22.94). He's also a fan of IMAX (NASDAQ: IMAX; Price: $3.34), because the experience of seeing a movie in the chain's theaters can't be duplicated.