Irrational Investment Behaviors in the Fan Circle Economy: A Behavioral Finance Perspective

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Abstract

In the context of the rapid development of internet culture, this paper compares the irrational behaviors exhibited by stock market investors and fan circle consumers, discussing the influence of the fan circle economy on consumer psychology. The study finds that fan communities, through their organized and emotional structure, profoundly shape consumer behavior and mirror the irrationalities observed in capital markets. Drawing on behavioral finance theory, this paper identifies three key shared psychological mechanisms: the sunk cost effect, herd behavior, and loss aversion. By mapping these parallels, the paper sheds light on how emotions and group identity distort rational decision-making in both cultural and financial contexts, and briefly discusses potential policy responses.

Keywords

Behavioral Finance, Fan Circle Economy, Emotional Capitalization, Investor Behavior, Consumer Behavior.

1. Introduction

“Fan economy” is, in its broadest sense, referring to the value and revenue generated via interactions between individual fans (especially “super fans”) and fan communities with the artists or stars even the virtual characters (and their production studios and programs) that they follow. With the rapid development of Internet culture, social media platforms have deeply penetrated into the lives of the masses. The fan economy with fan culture as the core has gradually developed from a subculture to a systematic economic activity derived from interest circles such as star-chasing "fans" and entertainment communities. The fan economy has gradually evolved into a fan circle economy with the characteristics of organization, specialization, scale, and commercialization. The fan circle economy has formed a new economic form with unique business logic and value chain through the community-based operation of fan groups. China's cultural industry accounted for 1.3% of GDP in 2004 and nearly 5% in 2021. Especially since 2012, China's cultural industry has grown at an average annual rate of 13.7%[1], and the fan circle economy has played a key role, the cultural industry is the "outlet" in the process of upgrading China's economic industrial structure, and the "fan circle economy" has seized the wind outlet generated in the big wave of cultural industry development, and there are high profit returns.

In the era of self-media, merchants give special emotional meaning and value to some commodities through emotional assignment, promote commodity consumption, accelerate capital circulation, and make consumption no longer only focus on the use value of commodities, but pay more attention to their emotional transmission and emotional symbolism.[2] Coincidentally, the fan circle economy has brought great influence to the financial market under the empowerment of emotions, but at the same time, it has also obviously led to the misallocation of resources. In traditional financial theories. Investor behavior is often assumed to be rational and that it is aimed at maximizing utility. However, research in behavioral finance shows that investors are not always rational, and investor psychology (e.g., irrational factors such as herd effect, overconfidence, and loss aversion) also has a certain influence on market volatility. Among them, it is not difficult to find that there are certain similarities in consumption and investment behaviors between consumers of the fan circle economy and investors in the capital market, and both may be affected by group identity, emotional fluctuations, etc., so as to make irrational decisions.

Based on this background, this paper aims to explore the irrational decision-making mechanism in emotional consumption and investment behavior through the psychological commonality of fan circle economy and capital market. will use the theory of behavioral finance to analyze the behavior of investors and consumers in the fan circle economy and throw out shallow opinions on market supervision and irrational investment[3][4].

2. The Underlying Psychological Commonalities between Fan Circle Consumers and Investors

2.1. Herd Behavior

Herd behavior describes how individuals collectively imitate actions without centralized coordination, often intensifying market volatility. In finance, such behavior can inflate asset bubbles or trigger crashes[5][6]. In the fan circle economy, platforms such as Weibo and fan clubs foster stratified communities where hype, rankings, and data manipulation drive emotional capital. The 'anime goods economy' surge in 2024 is a case in point-after explosive growth, over 70 stores closed in early 2025 as the market corrected[7]. Similarly, stock prices of companies like New World Shares surged and then collapsed under herd-driven speculation. Such behavior distorts market value and reveals the susceptibility of both fans and investors to emotionally driven mass influence.

2.2. Sunk Cost Effect

The sunk cost effect refers to the tendency to continue an endeavor once a prior investment has been made, even when it is no longer rational. [8]This behavior, rooted in the desire not to appear wasteful, violates the principle of utility maximization. In financial markets, investors often add more funds to declining assets instead of cutting losses. According to a survey, over 60% of securities investors are influenced by this effect[9]. Similarly, in the fan circle economy, fans heavily invest time, money, and emotion in their idols. Even when idols are involved in scandals or perform poorly, fans often continue to support them. This reflects a path dependence rooted in sunk costs, contributing to a misallocation of resources and reinforcing problematic values among youth. Economic stakeholders benefit by leveraging this irrational commitment, creating a cycle of emotional investment and capital exploitation[10].

2.3. Loss Aversion

Loss aversion describes a cognitive bias where losses loom larger than gains of equal magnitude, as outlined in prospect theory[11]. This bias leads both consumers and investors to continue investing in failing decisions to avoid acknowledging a loss. Fan circle consumers, when faced with negative outcomes such as idol controversies or financial disappointment, may escalate their spending to recover emotional satisfaction. Operators exploit this by using marketing language that invokes fear of missing out or symbolic loss. This psychological pattern enables the 'complete harvesting' of consumer resources, reinforcing a cycle where emotional manipulation drives irrational consumption. In finance, loss aversion similarly leads to excessive risk-taking in declining markets[11][12].

3. Discussion

Despite operating in distinct domains, the fan circle economy and financial markets exhibit strikingly similar irrational behaviors, particularly under emotional influence. The sunk cost effect makes the product endowed with special emotional value, and fans are willing to buy fan circle peripherals (such as limited edition albums) at several times the price, just as shareholders are enthusiastically pursuing "sentiment stocks" (such as Moutai). With the blessing of the herd effect and loss aversion, fans and investors in the fan circle will be trapped in the information cocoon, the former (such as Weibo) will filter negative information about idols, and the latter (such as Reddit) will collectively sing long junk stocks. Both amplify biases in the source of information, making it impossible to ignore potential risks in the market. However, their differences are equally important and deserve separate consideration. Among them is the “lipstick effect”.

The lipstick effect is a phenomenon whereby expenditures on cosmetics increase during economic downturns[13]. It reveals an interesting phenomenon in consumption behavior during the economic downturn: While investors generally choose to close or postpone major investment decisions because of pessimistic expectations for the future economic situation, the fan circle group shows diametrically opposite enthusiasm in the consumer field. In a downturn in the economy, investors tend to avoid risk and choose to hold cash or switch to safer assets, and their investment activities are significantly less frequent. In stark contrast, the core consumption of the fan circle economy with young fans as the core may not fall but rise. On July 18, 2024, POP MART released its interim results forecast, expecting revenue to increase by no less than 55% year-on-year in the first half of the year; During the same period, POP MART's profit rose sharply, and it is expected to achieve a year-on-year increase of no less than 90%. Stimulated by this news, in early trading on July 19, POP MART's stock price opened 11% higher, hitting a new high since February 2022; As of the close of the day, POP MART still bucked the trend and rose 10.49%, with a total market value of HK$55.866 billion. [14]At the same time, China's GDP growth rate in 2024 decreased by 3.6% compared with 2021, 0.4% compared with 2023, and the growth rate of social sales in 2024 decreased by 3.5% compared with 2021[15]. This is a typical manifestation of the "lipstick effect": In a sluggish economic environment, consumers (especially those in the fan circle) will cut back on commodities and luxury goods in favor of cheap luxury goods with relatively low unit prices but immediate emotional satisfaction. For example, lipstick endorsed by idols, a concert, and even LABUBU, which has recently taken the world by storm. They are less expensive than luxury goods, but they offer strong emotional value, a sense of community belonging, and a fleeting sense of escape. It just meets this psychological need.

Another noticeable difference is age gap. For investors, particularly in China, most are middle-aged or elderly. Data as of September 2024 shows that individuals aged 50–55 comprise the largest group (17.34%), followed by those aged 55–60 (14.45%)[16]. These investors generally possess greater financial literacy and economic independence. Yet, they are still vulnerable to cognitive biases, especially during periods of market uncertainty or speculation, leading to irrational investment decisions such as overtrading or holding onto losing stocks.

In contrast, the primary participants in the fan circle economy are Generation Z teenagers, who often lack economic independence and emotional maturity. This group is particularly sensitive to peer influence and digital media manipulation. Emotional involvement with idols may evolve into excessive financial contributions, blind loyalty, and even cyberbullying. Their irrational consumption behaviors are shaped not only by sunk cost and herd mentality, but also by a desire for identity and belonging[17].

These differences suggest a need for differentiated regulatory strategies. Investor education should emphasize cognitive awareness and financial planning, while fan economy governance should focus on adolescent protection, emotional literacy, and media accountability. The recent initiatives by the Cyberspace Administration of China, such as the governance notice on fan culture, are commendable beginnings but require continuous refinement and enforcement.

4. Conclusion

This paper explored the shared psychological mechanisms underlying irrational behavior in both financial investment and the fan circle economy, focusing on the sunk cost effect, herd behavior, and loss aversion. By applying behavioral finance theory, it revealed that consumers and investors-though operating in different domains-are similarly influenced by emotions and group dynamics.

The study found that fan circle consumers, driven by emotional attachment and group identity, often exhibit irrational consumption behaviors that mirror investment mistakes in capital markets. These behaviors not only distort market value but also pose risks to cultural ethics and economic stability.

However, this research is not without limitations. The analysis is mainly theoretical and lacks empirical data or quantitative modeling to validate its assumptions. Future research could focus on conducting surveys or behavioral experiments to deepen the understanding of these phenomena. Comparative studies between different cultural contexts or between virtual idol economies and traditional celebrity markets may also yield valuable insights.

To mitigate irrational behaviors, differentiated governance is necessary. Investor education, media literacy, and adolescent protection regulations must be strengthened. Only through combined efforts from regulators, platforms, and society can we ensure that both capital markets and fan-driven economies operate in a more rational, ethical, and sustainable manner.

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