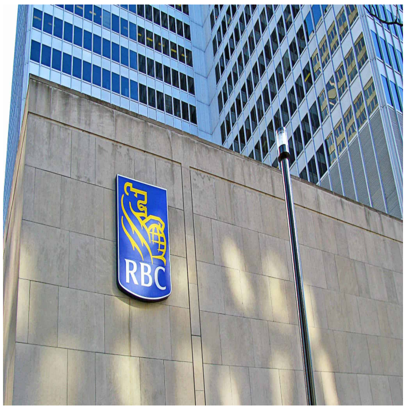

Royal Bank of Canada Delivers Royal Surprise: Time to Buy?

Description

It's off to the races with Canadian bank earnings!

I've stated many times in previous pieces that now's the time to be buying the big banks while they're out of favour. The TSX has been a huge laggard this year, and one reason is that the general public is fearful of Canada's frothy housing market. The collapse of **Home Capital Group Inc.** (TSX:HCG) earlier this year sent shivers down the spines of many investors, which dampened the mood over the Canadian financial sector — the banks in particular, especially those with a large amount of domestic mortgages.

It seems everyone is a bit nervous to be buying more shares of their favourite banks, even though they've proven over the course of the long term to be absolutely fantastic investments.

As the big banks deliver their results this season, I expect top-notch results, which could spark more interest in Canadian banks. The next thing you know, fear may turn to greed in a matter of just a few weeks.

First on tap was **Royal Bank of Canada** (TSX:RY)(NYSE:RY), which reported its Q3 2017 results on August 23, 2017. RBC delivered promising results thanks to strong performances in its retail bank and wealth management segments.

Solid Q3 2017 results could send shares a lot higher

For the third quarter, revenue and net income were clocked in at $9.9 billion and $2.8 billion, respectively; both of which were down slightly on a year-over-year basis, which may not seem impressive until you realize that analysts were already expecting modest earnings for the quarter.

Shares of RY rallied 1.09% following the solid quarter, which sparked a rally for many other Canadian banks. RBC's quarter was definitely a sign of good things to come for the Canadian banks. I believethe post-earnings rally was warranted and could be the start of a sustained rally to much higher levelsas Canadian bank fears gradually fade and the Canadian markets start to rebound from a slow start tothe year.

Surprise dividend hike? Yes, please!

Shareholders of RY have to be happy after the management team announced a 5% dividend raise, which came as a surprise to some. RBC is a dividend-growth king, so consistent raises are to be expected over the course of the long term. If you're a long-term investor, you'll continue to be delighted by numerous and consistent positive surprises like these.

RBC's wealth management segment deserves a round of applause

The wealth management segment was quite remarkable this quarter with its net income increasing 25% to $486 million on a year-over-year basis thanks to City National, the U.S. private banking and wealth management business which was acquired a few years ago.

More positive surprises in the future?

There's no question that the deal is paying off, and going forward, investors should expect more positive surprises as the management team increases its exposure to the U.S. investment banking scene in the years ahead.

Bottom line

RBC showed that it had some surprises under its sleeve, and I think Canadian investors should seriously consider picking up shares of the big banks while they're cheap, because I think they're very well positioned to outperform in the coming years.

It's positive quarterly results like RBC's which will win back the optimism of Canadian investors, and I believe there's much more to come for those with a long-term investment horizon.

Rising interest rates and the lacking evidence of bad credit conditions are both major positives for RBC as well as all Canadian banks. Now is the time to load up on your favourite Canadian banks before their outlook improves further and investor fear turns to greed!

Stay smart. Stay hungry. Stay Foolish.

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